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PRESENTATION

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

So, you've heard Bob talk about the three elements that form the core of our strategy - the creation of high-quality content, the use of technology to expand consumer access and our focus on growing in international markets. Through the rest of the day and tomorrow, our management team will highlight how each of our businesses is executing on this strategy to drive our Company's performance. As we delve into each business, we hope to give you a sense of where we are today, what challenges and opportunities we face, and how we are best positioning our assets to achieve strong returns and value for our shareholders. Central to their strategies is our focus on further building our brands.

Widespread affinity for a brand happens not only when a consumer recognizes your brand, but when they understand the distinctive qualities that differentiate it. Our theme parks play a vital role in raising the awareness and affinity for our company's brands, stories and characters by providing an immersive Disney experience that fully engages our audiences around the world. As should be readily evident here at Walt Disney World, we have established a competitive advantage in terms of both scale, the unique nature of our content and reputation for exceeding the expectations of our guests. Jay Rasulo, Chairman, Walt Disney Parks and Resorts, is here today to tell you more about how we plan to leverage this position to drive continued strong performance both in our existing assets and through potential new market opportunities.

Jay has been with Disney for more than 20 years and has a keen appreciation of the strength of our theme park assets and the potential for Disney in the broader travel and tourism market. He is a recognized leader within the travel and tourism industry, working to broaden awareness of the industry's role in creating jobs, economic growth, and cultural exchange. Jay serves as Chairman of the United States Travel and Tourism Advisory Board, which is charged with advising the U.S. Department of Commerce on the creation of a national tourism strategy, and he's entering a second term in 2007 as Chairman of the Travel Industry Association of America. Jay also has the happiest job on earth … at least, most of the time. Here's Jay…

Jay Rasulo – *Chairman, Walt Disney Parks and Resorts*

Good evening and welcome to the Lion King Theater. It's great to welcome you to Walt Disney World and to be the first speaker after a strong earnings announcement. We're very pleased with the Company's results for the quarter and our Segment's performance, which I'll talk about in a minute.

Let me get straight to the point: Walt Disney Parks and Resorts is positioning itself for strong, continued growth over the next decade and beyond. We expect part of that growth will be fueled by our existing businesses. But we're also thinking more broadly, as we look at new geographies and new businesses.

To get perspective on this growth opportunity, think back to 1955. That was the year Walt opened Disneyland and redefined family entertainment. People came to Disneyland to immerse themselves in a world of entertainment they couldn't find anywhere else… because it had never existed before.

We see today what Walt saw in 1955. The changes in population and spending power that supported Walt's dream back then can be found today across Asia, Eastern Europe and Latin America.

Just like the families of the 1950's suddenly had access to new forms of transportation and, for the first time, TV, today, markets around the world are gaining unprecedented access to low-cost airlines, television, movies, the Internet, and most importantly, great brands.

This economic growth has stimulated the worldwide travel market, especially among families. That's where we enter the picture. We are looking for opportunities to capitalize on this expansion and generate strong returns on invested capital. We are working to bring new guests to our existing businesses and expand into new regions with new businesses.

We have only scratched the surface of the worldwide travel market. When we consider new markets and the value of our characters, our stories, and our brand, we know that our opportunities have never been more exciting.

The worldwide travel and leisure market is estimated at $2.6 trillion today, and growing.

Most of this $2.6 trillion market is composed of segments that we wouldn't participate in directly. I won't be making any announcements of Disney Diners, Disney Air, or Disney Bus and Rail. But, as I'll show you in a minute, our opportunities to expand are significant, and over the long-term, very real.

Let's look at the businesses we're in today: theme parks, resorts, cruises, and time share. These four sectors constitute a $120 billion market, or about 5% of the entire travel and leisure market.

But even within this $120 billion target market, we have plenty of room to grow. At $10 billion in revenue last year, we captured less than 10% of those industries combined. Our share of some industries – resorts, cruise, and time share – are extremely low, leaving room to grow where our segment is proven and profitable.

Growth means building up our existing destinations and exploring new regions where entertainment sectors are developing today. These growing regions can provide new source markets for our existing locations or locations for new development.

KIUME: Everything the light touches is our kingdom…

JAY: I'm in the middle of a speech, Kiume.

KIUME: Yes, Jay. I've been listening. I am, in fact, the host of this theater.

JAY: I thought I had it signed out from six to eight.

KIUME: Oh. Yes. There you are on the sheet. Well, since there seems to be a pause in your presentation, let me give you some advice. The Pride lands are filled with opportunities, Jay. But you must remain true to your core. Remember the value of your characters, your stories, and your brand… Remember who you are…

JAY: Thanks. By the way, how did you take over my presentation?

KIUME: I told you it was my theater.

Like Kiume was saying, Parks and Resorts has opportunities to grow in ways that only Disney can. And given our stories, characters, brand and asset base, we can produce new businesses in ways that only Disney would.

To guide our development, we have established a three-part expansion strategy: continue to expand our existing businesses, enter emerging international markets, and broaden our footprint in the travel and leisure market.

Let's start with the first leg of our strategy: existing businesses.

The destinations we've built since 1955 have transformed our business into a global leader in family entertainment. Within each of our destinations, we have successfully added themed hotels and restaurants, merchandise facilities and other entertainment venues. This allows us to immerse our guests in Disney's distinctive story-telling, creativity and characters throughout their vacations.

Our expansion has generated solid financial results. Since 2004, when we began consolidating our segment's financials, we've seen revenues grow at an average rate of 9% and operating income increase at 19% per year. Hong Kong Disneyland opened during this period, contributing about 2 percentage points of the revenue increase but did not materially impact the bottom line.

Several years ago, we said that we would reach annual margins of 20 percent. I'll remind you we set this target before the consolidation of Disneyland Resort Paris and Hong Kong Disneyland Resort, and before the company was required to expense stock options. On our original basis, we achieved the 20 percent target last year.

2006 was a banner year for our segment, from financial results to creative successes. And even though it's quite an act to follow, especially given the success of the 50th Anniversary, we're not stopping there.

As you just heard during the earnings announcement, our revenues for the first quarter of 2007 increased 4% to $2.5 billion and operating income increased 8% to $405 million.

We're pleased with this growth given the tough comps against last year's first quarter. It came from a combination of strong attendance, occupancy and per cap spending levels at Walt Disney World, as well as our ongoing focus on cost management and return on invested capital.

Let's talk a bit about Hong Kong Disneyland, our flagship in China. It's developing more slowly than we expected in 1999 when the deal was put together. But we remain confident about its long-term trajectory. The five million in attendance we achieved in the first year puts Hong Kong Disneyland in the company of only 17 parks in the world, 10 of which are Disney parks.

Our senior leadership team just returned from Hong Kong. As we learn more about the market, we remain focused on improving our business results rapidly. We identified some challenges to be addressed in the near term, particularly in sales and marketing and in the seasonality the resort is experiencing. Longer-term, we're looking at expanding the park, which is expected for any new park and would require additional capital.

With our strong asset base and financials, we are focused on profitable growth. Let me tell you about our plans to achieve it.

To drive growth in our existing businesses, we'll continue to capitalize on the emotional connection we have built over the years with our guests. This is our primary competitive advantage. It gives us a halo to keep our existing markets coming back for more, while introducing new guests to our destinations. We will continue to support this emotional connection with profitable investment in exciting new attractions and entertainment, innovative new services and consumer-focused pricing policies.

We introduced *Where Dreams Come True* this year to reinforce the notion that a visit to a Disney park is an emotional experience.

This concept is resonating exceptionally well with our Guests. It creates an umbrella, strengthening our collective marketing message, while allowing specific sites to tailor that message to their markets.

Domestically, this year's execution under that umbrella is the *Year of a Million Dreams*. The dreams we'll award include overnight stays in the new Cinderella Castle Suite, which began two weeks ago with overwhelming media and Guest response.

We have already awarded over 300,000 dreams so far. Some of these dreams were simple, like a Dream FASTPASS or a unique set of mouse ears. Some of these dreams were really big, like a lifetime membership in the Disney Vacation Club or the opportunity to serve as the parade grand marshal at each of our resorts around the world.

At our worldwide media event, renowned photographer Annie Liebovitz showcased images featuring celebrities David Beckham as Prince Phillip, fighting the evil dragon from "Sleeping Beauty". . . Beyonce as Alice in Wonderland, twirling in a teacup with Oliver Platt as the Mad Hatter and Lyle Lovett as the March Hare . . . and Scarlett Johansson as Cinderella, running down the stairs as the clock strikes midnight, her glass slipper left behind her. These images give the world a different – more sophisticated – view of our destinations, tapping into the consumer psyche in a new way.

We also kicked off a major promotion with CareerBuilder.com. Now our guests can live their "dream jobs," like being the Jungle Boat Skipper or a Princess-in-Waiting.

Building on the dreams message, we'll continue to do what we've done so successfully for so long: develop new, world-class attractions and entertainment that generate a solid return on invested capital. Since you will experience a number of our newest attractions during your visit here, I won't go into details right now. But when you ride *Expedition Everest*, you'll see what we mean when we talk about immersive experiences. When you watch *Finding Nemo the Musical*, you'll see how we leverage our stories and franchises to connect with our guests.

But growing our existing destinations is not our only expansion strategy. We intend to explore new markets for the businesses we're in today and to expand beyond our current business models.

Let's move to the second leg of our expansion strategy: tapping into emerging markets.

Accessing new markets will allow us to drive new guests to our existing businesses. New markets also mean new opportunities to bring Disney entertainment to new regions around the world.

Today's global travel market presents similar opportunities to those Walt seized upon in the 1950's.

In 2004, there were 763 million tourists across the world. Europe welcomed 55% of them and the Asia-Pacific region only had a 20% share.

By 2020, the global market will more than double to 1.6 billion tourists. Total volume in the Asia-Pacific region is expected to triple, taking share from Europe and growing to represent almost one-third of the total market.

Asia tourism growth presents fantastic opportunities for our segment. But it will be critical to fit the appropriate model of Disney entertainment to the appropriate market within the continent.

Asia is home to developed economies, like Japan, South Korea, and Taiwan, and emerging, fast-growing economies, like China and India.

Asians now have more disposable income to spend on leisure activities. They are seeking out new entertainment and travel opportunities, in and out of Asia. Total arrivals to the region are growing at 7% a year, and in China alone international passengers are growing at 10%.

You've heard Bob say that China is a priority for The Walt Disney Company, and it's easy to see why. Its amazing economic growth has led to the emergence of a huge middle class with increasing spending power.

The number of Chinese who can afford to travel is growing every day. Last year, 31 million Chinese tourists took a trip outside of the country. That number is projected to grow to 100 million tourists by 2015, making China the number two tourism economy in the world behind the United States. And just think of the market for our brand and our characters: 240 million children under the age of 14 live in China.

The increase in Chinese spending power also bodes well for us. The Chinese are projected to account for one quarter of global luxury goods spending by 2009, surpassing the Americans, Japanese and Europeans. Also, we know that Chinese households begin to spend on travel and leisure when their disposable income reaches just 3,000 US dollars, about the average income for urban households in China today.

China – and Asia more broadly – may offer great opportunities for additional theme parks. Even while we're focused on driving performance at Hong Kong Disneyland, we will continue to explore other opportunities in the region if they are a good fit with our segment and our brand.

But creating additional theme parks doesn't mean more of the same. Any new park will need to provide the right size and scope of entertainment to fit its market.

So let's recap. First, we're making investments with good returns in our parks to continue the strong performance of our existing businesses. Second, I've just discussed how our brand, stories, and characters can be exported to emerging markets in search of new forms of entertainment.

That brings me to the third and final component of our strategy: establish a bigger footprint.

The first two components of our strategy are about building on what we do today. Broadening our footprint is all about what we could do tomorrow.

I am going to do something rare tonight. I'm going to pull back the curtain and share some of the ideas our business team and Imagineers have been thinking about. While this is definitely expansive thinking, our business, our brand, and our environment have never been more vibrant and exciting.

All of the ideas I'll talk to you about are concepts we're looking at, but clearly we're not going to go out and do all of them. We'll analyze each one in a disciplined way, because ideas can't just be exciting – they have to be profitable. Not everything I'm about to describe will necessarily pass that profitability screen at the levels we require for the business.

So on to our blue sky concepts…

KIUME: Hello again.

JAY: Hi Kiume. What do you think of the presentation so far?

KIUME: Relentless growth. Impressive. Scarlett Johansson and Beyonce. Most impressive.

JAY: I'm about to discuss our blue-sky concepts.

KIUME: I would not do that, Jay. Discretion is critical in front of the other animals.

JAY: The analysts know that we haven't committed to any of these ideas.

KIUME: Remember what happened when we disclosed our concepts to the elephants? They never forgot…

JAY: I think we can share some concepts, because they're just ideas we're looking at, not concrete plans.

KIUME: They do look like a trustworthy flock. One last thing, Jay. "Remember…

JAY: I know... "Remember who I am."

KIUME: No. Remember to turn the lights off on your way out.

Okay, for starters, when you look at Walt Disney World and our other destinations worldwide, you can see different businesses that have a shot at becoming free-standing enterprises.

When you think about it, our destination resorts are really combinations of many businesses, all of which we execute well. Besides the theme parks, we create and operate resort hotels, retail and dining concepts, entertainment complexes, and water parks. There is an immersive, uniquely Disney form of entertainment that happens within each of these businesses.

Why couldn't we extend beyond our destination resorts and launch stand-alone businesses in some of these areas – resort hotels, RD&E centers, or water parks? We know our domestic guests come to our resorts about every four years. Thinking outside the berm gives us a great opportunity to keep our guests within the franchise, even while they are between visits to our major destinations.

Where do Americans travel on their vacations? Only 29% went to a theme park in the last year. Meanwhile, 71% went to a U.S. city, a third went golfing or to the beach, and a quarter went on an outdoor vacation or to a national park.

Those 71% of family vacationers who went to a US city on their overnight trip stayed at hotels that lacked our theme-ing, story-telling, and detail. Expanding our resorts beyond our theme park destinations could help us claim a greater share of the hotel industry. It would also allow families to make shorter, more convenient trips to a Disney immersive experience – an environment they love and trust.

If you take the flagship hotels at our resorts worldwide, the Grand Floridian, the Grand Californian, Disneyland Hotel in Paris, and Tokyo Disney Sea's Mira Costa, they collectively achieved just over 90 percent occupancy throughout the year at an average daily rate of around $350.

Imagine if we expanded our Grand Collection of hotels. We could develop regional resort properties located outside of metro areas. We could develop urban hotels in cities that are major tourist destinations for families. We could build destination resorts in exotic locations or boutique, branded hotels at a variety of price points.

One good reason to build resorts away from our destinations is the opportunity to reach out to families with younger children. We know some parents feel their children are too young to travel to our resorts. They feel that before the age of 5 or 6, their child may not be old enough to remember or appreciate the experience. But through regional resorts and urban hotels, we could offer great vacation options to families no matter where they travel.

Of course, our hotels would need to continue to operate at the premium margins we've come to expect from our business. So, we would only expand into environments that offered solid returns. We would also be careful to preserve our use of capital, especially since third-party equity capital for hotel investments is readily available. We may choose to fund our projects partially or fully with outside partners who recognize the value of the immersive Disney vacation experience. We've already done this with the Oriental Land Company as the licensee of Tokyo Disneyland. These structures allow us to manage our risk, capital contribution, and distribution of capital, while at the same time benefiting through royalties and other streams.

A second business that may be able to stand on its own is our retail, dining, and entertainment complexes. The Downtown Disney districts at both the Disneyland and Walt Disney World resorts have been very successful. At Disneyland, more than 30% of "Downtown" guests came to our property just to experience our retail, dining and entertainment. In fact, Disneyland's Downtown Disney is one of the top five retail centers in California when ranked in terms of sales per square foot.

Walt Disney World's Downtown Disney has also performed well, with guests staying to shop, eat and play. They have such a good time that over half of first time guests and 70% of repeat guests tell us they're going to come back.

Given their strong performance, imagine if we took the same concept of high-quality retail, dining, and entertainment, and placed it as a stand-alone entity away from any theme park. We could create a themed RD&E facility that would fit perfectly into the downtown areas of major cities, as Masterplan and lead tenant, utilizing the model of attracting other leading brands to those centers just as we do at our existing destinations.

The comprehensive RD&E experience that only we can provide would become a draw in key locations.

Our segment has been in the water park business since 1976, when River Country opened at Fort Wilderness. In the summer of 2004, an estimated 73 million people visited a water park somewhere in North America, and that market continues to grow.

Today, Typhoon Lagoon and Blizzard Beach are the two most visited water parks in the world. They demonstrate that no one is able to perfectly theme a water park like Disney. We could offer our unique brand of water park to new markets either domestically or abroad. These markets have never experienced the quality product we have to offer.

Indoor parks are gaining traction because they're available year-round, but they don't offer anything close to what our Imagineers could achieve. Our water parks could become more than simply a warm-climate phenomenon. Indoor or outdoor, there may be real possibilities to consider in this $7 billion industry.

Finally, we are exploring brand new theme park ideas. Not all theme parks have to be the size of our current parks, generating very high volumes with relatively lower spending per guest. We know some people want deeper, even more immersive experiences, and are willing to pay more to get them.

What about a smaller, deeply immersive park – for now, I'll call it a "niche" park – that could serve a much smaller daily audience in a more intimate setting? We could charge an all-inclusive admission price that could be several times what our guests pay today.

We could draw from our stories and our characters to develop our own form of high-end, immersive theme park entertainment. We could offer more interactive shows, one-on-one experiences and unique attractions to create even more of the emotional connection that is a hallmark of our brand.

A niche park would require a smaller capital investment and could fit perfectly into existing and new markets. We have the creativity, the products and the stories to make these parks compelling for our guests. So, the niche park is an idea we are thinking about…

These concepts are blue sky ideas right now. These are businesses that we know how to build and we know how to manage. These ideas could be executed domestically or overseas. But they won't be executed at all if we don't believe they would generate the returns on invested capital we expect to achieve from our businesses.

Now, I don't want to imply that all growth beyond our destination resorts needs to come from completely new concepts. We already operate stand-alone businesses that could grow further. Take Disney Cruise Line. Right now we play an important but limited role in this $27 billion industry.

Disney Cruise Line is a fantastic business, with strong demand and a stellar product. Families rarely considered taking a cruise before our ships set sail. Now, even with only two ships, we lead the family segment of this booming industry. These families trust Disney to create a fantastic vacation outside of a trip to Walt Disney World or Disneyland.

From a financial perspective, targeting families has been smart for us. Our yields are substantially higher than other cruise lines in the Caribbean, which is typically one of the lowest-yield destinations in the industry. And given that family cruise parties are larger, our load factors are nearly 50% higher than the rest of the industry. High load factors and premium yields allow us to generate high margins and double-digit returns on our invested capital.

We've also enjoyed strong demand for new cruise itineraries. Our bookings for the Mediterranean itineraries that begin this coming summer were 70% sold out on the first day they became available. We'll also repeat our West Coast itinerary during Summer 2008 due to strong demand. Reservations for the West Coast just began last week and set a new first-day booking record for our cruise business. In fact, the two trans-canal cruises are already over-sold.

Imagine if we had a larger fleet so that we could regularly offer new itineraries like the Mediterranean and the West Coast. We believe Disney Cruise Line is a business that is primed for successful growth beyond just two ships. We expect we could continue to earn double-digit returns on invested capital if we expanded our fleet.

Many of you have asked about further investments in this business. We have ongoing contact with ship yards. If we can generate superior returns, based in part on contract terms and pricing, then we'll pull the trigger. This is a business we like a lot.

Disney Vacation Club. This is a business that has also grown quickly, consistently generating strong double-digit operating margins that well exceed our average margin for the segment. And, of course, the nature of this business makes our capital returns and paybacks very good and very fast.

All of our vacation club resorts are completely sold out except the third phase of Disney's Saratoga Springs Resort and Spa, which is selling well ahead of schedule. Disney Vacation Club's member base has doubled since 2000 with over 108,000 member families or over 300,000 people. And they all tell us we offer a great experience. 93% of our members rate their membership as excellent or very good, and 50% of sales come from member add-ons and referrals. We've also noticed that our members will trade their points for access to other destinations, like Mexico, Hawaii and the Caribbean. This helps us identify potential off-property locations that would be great new sites for this business.

That is why we feel confident that there is still room to grow. The timeshare industry is huge and expanding, and families will still look to Disney when they think of their vacations.

Just last quarter, we announced our eighth Vacation Club resort, Disney's Animal Kingdom Villas, as part of Animal Kingdom Lodge. Unlike our other vacation club homes, these 458 units will look out on a savannah filled with African animals. Of course, we'll also provide the high-quality room theme-ing and home-like amenities our members have come to expect from Disney.

As demand continues to be strong, we'll work to expand our Disney Vacation Club even further, both at the Walt Disney World property and around the world.

Just as we revolutionized the cruise and time share industries, we are bringing the Disney Difference to guided tours around the world with Adventures by Disney. When we combine great destinations, special access to attractions, and trust in Disney vacations, we feel this business can grow nicely. We'll be expanding from seven itineraries to twelve this Spring, offering adventures as far away as Prague. Adventures by Disney has already sold about half of its trips in 2007.

This business model is easily scaleable, so we will continue to grow as we observe demand. Adventures by Disney requires very little of our capital and is largely domestically sourced for now. But, as more international guests want to travel abroad, say from China to the United States, we will be perfectly positioned to expand even further.

So as you can see, whether we look at growing an existing business or developing a completely blue-sky concept, the possibilities to expand are all around us. But we're not focused on what is possible – we're looking at the most profitable opportunities to grow.

Why am I so confident that our segment is well positioned to branch out?

Our relationships with millions of families will enable us to expand into new businesses and new markets.

Consumers in virtually every corner of the world know and trust the Disney brand. They understand that Disney experiences include world-class entertainment and extraordinary Guest service. And our segment offers the most tangible incarnation of the Disney brand anywhere. We're the only way guests can truly become part of the magic.

One thing is certain: when we think about the future and how we'll grow our business in the coming decade and beyond, we will never stop dreaming. The possibilities to bring Disney entertainment to our guests around the world are almost endless. By continuing the entertainment revolution that Walt started 50 years ago, you can see why we believe the potential for Disney Parks and Resorts is truly limitless.

Thank you for coming and listening to me tonight. I hope you enjoy the rest of the conference.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Good morning. In 1989, right before I presented my first primetime schedule for ABC, I sat with Tom Murphy, seeking his advice about the presentation. And he said, "Listen kid, just play the videos and shut up." And I think maybe that's what I ought to do today.

[Disney Video]

Video always seems to give me the chills a little bit, certainly pumps me up for appearances like this. Although, a $36 price tag on the stock pumps me up as well!

This is a long day, with a number of presentations and I thought I would kick it off with an overview. I'm going to try really hard not to get into too many details, because you're going to get a lot of details throughout the day, and I certainly don't want to upstage anyone that's presenting after me.

The Walt Disney Company has a number of vibrant, creative engines that we now operate in a very integrated and a consistent way. This creates a business model that as we see it, differentiates us from the rest of the pack in the entertainment businesses. It also positions us for significant growth on a global basis, particularly in a world that is ever changing and certainly more dynamic, and in many respects, more competitive.

Last night and today, you're going to hear directly from all of the people who are running these great businesses of ours. So, I'm just going to give you again my overview, and also assumptions or points of view about how we see the environment and to sort of give you an opportunity to think about some of the points or to concentrate on some of the points that are going to be made throughout these presentations.

So first and foremost, we see a world where there's growth in distribution paths to the consumer. At the same time, we see a world where there's an explosion of devices that consumers can consume media on. We see the combination of both being powerful because we think this is increasing the “pie” of media consumption. In effect, people have more access to content than ever before, more places to consume that content on more devices than ever before. And that is increasing media consumption.

We also believe that increased consumption is incremental. In other words, we're not seeing as much cannibalization of what I'll call traditional media forms, as some people thought might occur. We're actually seeing people spend more time and more money consuming media. And that obviously is a great thing for a company like Disney.

We also believe that because there is increased choice with more media and more places to consume media - there is also a flight to quality. The importance of quality has actually grown and on top of that so has the importance of brands. Clearly, this is very relevant when it comes to The Walt Disney Company.

We also believe that a focus on the consumer is essential, and that the price-to-value relationship, particularly when it comes to media, is also essential, as is timing to market and general ease of access. It's very, very important that the consumer is really the focus and the priority and that we provide them with great access. I find it interesting that there's a lot of focus on software in our business and a lot of focus on hardware. There isn't as much focus on the software application that enables consumers to actually consume software *on* hardware.

And so, when we look at the world and we look at all the opportunities that we have to distribute our content on a variety of platforms, we focus in particular on what the application is like for the consumer. Is it easy for the consumer to use? Is the consumer experience going to be a good experience? Because if it's easy for the consumer to access the content and the experience is going to be good, then that typically will enhance that quality of the product the consumer is consuming, at least in the consumer's eyes. A

Lastly - and this very relevant when it comes to what we're doing on the Internet and with Disney.com in particular - we view the Internet as an entertainment medium. We know that it's a powerful communications tool. We know that it's great for things like research. We know it's great for commerce. But, we also believe it's great for entertainment, and particularly with a broadband-enabled computer. If you look at today's computer, you see a computer with bigger and better quality screens and monitors, and that enhances the entertainment experience and the opportunity.

I think about it more as a primary language when it comes to media versus a secondary language. I say that because I watch my own kids - I have two boys who are eight and four. They come home from school, and the first media device they turn on is the computer. It's not the video game console, and it's not television set, it's the computer. We need to occupy that space in a very robust way with entertainment. And again, that's what Disney.com is all about.

So in essence, we look at the world, we see the audiences expanding and we also see our ability to reach that audience expanding. And so, we then ask ourselves, and you should think about this as well when you look at our presentations --what are we doing to take advantage of these dynamics? We're clearly focusing on the quality of our content and the quality of our brands. We feel that if we make high-quality, well-branded product and never lose sight of the consumer then this company is going to flourish and thrive for many years to come.

Now, two years ago at this conference, actually before I was named CEO, I articulated a three-pronged strategy for the company. I did so because as I thought about Disney, I knew that it was a company that clearly had had a lot of success on the creative front. But, there was a real disconnect between creativity and technology at the company. We hadn't quite figured it out yet. And the world, clearly, demanded that we figure out exactly what role technology plays at the company.

We were also somewhat frustrated by what was going on globally. We knew we had spread our brand around the world, but we were somewhat frustrated by our ability to really penetrate markets deeply. So when I articulated the strategy, it was focused really on three things. I've said them a number of times, but I want to go into them in a little more detail since my thinking has evolved a bit since two years ago. They are creativity, and with that quality and brand strength, technology as I just mentioned and globalization.

We've been articulating and implementing this strategy pretty deeply throughout the company. Yesterday morning I spoke at a conference here for about 250 sales people from our theme park. This is a group that brought in $9 billion of revenue in 2006. And they all had cards with them, The Walt Disney Company priorities: creativity, global expansion and technology.

I just thought it was interesting, and no it was not something that the corporation in Burbank forced upon them. They had heard the strategies articulated a number of times, and they were adopting them to better serve their businesses and their customers, which obviously was heartening to me.

So, I'll start with the first one, and that's creativity, investing in creative people and creative engines, which is the most important thing that we do.

I would say if I were to come up with an example that best describes what I mean by that, it would be Pixar. Our acquisition of Pixar last year was probably the most significant occurrence at the company. I am really pleased to say that the integration, as we call it, although that term I think can be sometimes overused, has been seamless and extremely successful. Bringing the talent of Pixar, particularly John Lasseter and Ed Catmull into Disney has ignited this company creatively.

Obviously, it's incredibly important because of how important animation is, but it also goes well beyond that. I don't know how many of you have had a chance to see the new *Finding Nemo* show at Animal Kingdom, but we opened it last fall. In November, John Lasseter came in and saw a performance and gave a number of, I thought, really good notes. Those changes were put into place after the holidays and the *Finding Nemo* show at Animal Kingdom has been getting standing ovations.

That's just one small example of what I mean when I talk about igniting the company creatively, and the importance of Pixar from a creative perspective. It obviously, again, goes well beyond that because you know how important animation is to us. I talked earlier about quality. I think the most important value that this company needs to adopt is focusing more on quality than on quantity.

When you hear from the studio and you hear them talk about the number of films they're making, particularly Disney films, we're not focused on making many films. We're focused on making <u>great</u> films. We believe we'll drive more value to our shareholders if we make good product or great product instead of just a lot of product.

I had also mentioned brand earlier and its importance in this world. It's not just how we invest our money - making Disney films as a for instance or investing in Disney games - it's also how we label the product and what we hang on the door of the business. And so, you're going to hear throughout the day that we're actually starting to rename a number of our businesses so that we can focus more on brands and build more brand strength with the Disney, ABC and ESPN brands.

We already have that deeply at ESPN. And, with Disney we think we have a durable brand that gives us a competitive advantage, and we're going to aim to make that brand <u>more</u> durable, more competitive and more value-generating on a global basis. To maintain this brand durability, we have to focus on it. We have to invest in it wisely, to enable it to occupy more space to be more accessible to people more often.

We also need to be "brand innovative", and that relates to how we create, and particularly how we market the brand. There is a lot of talk these days at Disney about getting more innovative from a marketing perspective. As a for instance, I'm pretty interested in spending more of our time and more of our money from a marketing perspective on new platforms as we market the Disney brand and as we reach potential Disney consumers.

I talked earlier about the consumer. When I talk about the second prong of our strategy, which is technology, what we're really talking about is using technology in a very pro-consumer way. First and foremost, it has to be used as to better serve the consumer. That means to move product to the consumer on a well-timed, well-priced basis, ease of access as I talked about, and basically being more relevant, more front and center to the consumer, and again, more accessible. The iTunes deal we did last year is a perfect example of that. It was game changing in many respects in the industry, but in particular for the company, because it was a very tangible way for me to, essentially, show the rest of the company just how valuable technology was when it came to moving content to people in more places more often. And it's been incredibly successful. Tom mentioned we sold 1.5 million Disney movies since October. And later Anne Sweeney's going to get into how many television shows have been downloaded, particularly our television shows. It's quite a successful venture, and I believe we're just seeing the tip of the iceberg.

We've also talked over the years about being "platform agnostic" and I've always liked that term. But in reality, what we see ourselves as is "platform aggressive", not just platform agnostic. It's very, very important for us to put our content on multiple platforms in multiple places. Again, we want the environment to be sound. We want the software interface to be right. We want the consumer experience to be right as well, but getting our content out there more and more in new platforms, not just in the US, but around the world, is going to be a real growth driver for the company over the next decade.

I think it's also important that while we have good relationships with third-party distributors and we put our product on their platforms, we also have to be in the direct-to-consumer business as well. Disney.com, ABC.com, ESPN.com are three good examples of being platform aggressive, but on our platforms. And again, the demonstration you'll see later for Disney.com, is a great example of that.

The third prong, globalization, is fairly simple. We think we have a competitive advantage globally. Andy Bird and his team are going to get into that. The reason I say that is because the Disney name has value across so many businesses. We know that it does in movies. Probably Disney and Pixar are the only brands that really matter in movies, interestingly enough.

We know it does in television, given what the Disney Channel is doing. And, it has great value in music and in a variety of consumer products – publishing and toys are good examples of that. Hopefully, we'll create that value in video games. Online, we believe we'll create value as well, and of course, in travel.

The reason that I talk about that as it relates to our competitive advantage globally, is that we have multiple entry points into each market. We can assess a market, determine what the opportunities are challenges are, and actually decide which Disney business we go into a market with first. You'll hear from our managing directors of China and

Russia and India later on and they will give you some examples of what I'm talking about.

Last year, Tom Friedman wrote a book that I thought was really good. It was called *The World is Flat*. He talked about a flat world, basically a global, web-enabled platform for multiple forms of sharing knowledge and work and presumably media, irrespective of time, distance, geography and language. I really enjoyed it and it was incredibly relevant to what we're doing at the company.

But, I also realized after reading it that you could quickly conclude that the world had more homogeneity in it and that it was one world. The world is flat, if we look at the world as one world. But I actually don't believe that's the case, nor do I think that's really what Tom Friedman meant. The reason I say that is, when we look at the world, we see multi-cultures. The world is still deeply multi-cultural. There's a lot more competition locally from local cultures than every before, thanks to economic growth in developing markets as well as the technology.

So we're spending a lot of time thinking about not just taking product that we make in Burbank and moving it seamlessly across borders anywhere in the world; we're talking about planting ourselves on the ground in these markets and making Disney branded content <u>in</u> those markets <u>for</u> those markets. And again, Andy Bird's going to take you through a variety of examples of this.

Before I leave the stage, I'd just like give you some other examples of what I'm talking about, looking at all the Disney businesses. I could probably do the same thing if I were talking about ESPN. So first, I'll start on the live-action side of the studio. I mentioned we're making fewer films, focusing on quality. We're making more <u>Disney</u> films. Alan

Bergman and Oren Aviv will talk about that later on, again, the focus on Disney, the focus on quality.

I talked about Pixar, great example of great creativity. The value of animation, again, you can't forget that. So many things that we do as a company emanate from a successful animated film, particularly a high-quality, classic or franchise animated film. Whether it was *Little Mermaid*, or *Toy Story*, or *Cinderella*, or *Lion King* - just walk around the park and you'll see that. So, that becomes an incredibly important acquisition for us, and one that I think is going to be value-creating over time. The success of *Cars*, obviously, is a great start, but not one that we're surprised about.

You'll hear about video games on the Disney side. We're making mostly Disney video games, again, using technology of course but focusing on the brand. On the television side the Disney Channel is a powerful creative engine for the company and a real global ambassador as well. The success of those channels market by market with all that great creativity will create huge value for this company over the long run.

We talk a lot about stage plays - again, a very solid business for us, a global ambassador because we take our plays on the road. *Lion King* has now been seen by over 40 million people worldwide. I can't think of a better ambassador for the Disney brand than that, and a very good business as well - high-end creativity, quality not quantity.

And then, theme parks and resorts which are brand-building behemoths in many respects. Jay talked about a variety of opportunities, and how we're focused on growing that business. I want to emphasize that we're also focused as a company on returns on invested capital. One of the reasons we focused on these three strategies a few years ago was to also improve our returns on invested capital.

One of the reasons we are focused more on the Disney brand is because our returns on Disney product have typically outpaced our returns on non Disney-branded product. So, when we look at the theme parks, we see great opportunities to leverage both our service abilities and our brand strength. I think you'll see come interesting developments there over the next few years.

Lastly on the online side, you'll get a good look at Disney.com, and as I said, the Internet as an entertainment medium. This is probably one of the most important ventures that the company has entered into over the last six months. Its value to the company is enormous. It was also essential that we turn what was basically a site map into a real entertainment destination for kids, young kids, tweens and parents. I'm very, very excited about it. I'll demonstrate it myself, if you want, in the room over there. I'm so excited because, again, I think it's got such great potential.

So in summary, you've got a management team that you're going to see. It has a collective strategic vision. We're executing it deeply across all of our businesses broadly and consistently throughout the company and throughout the world. There's also broad agreement that the Disney brand has real value, particularly if it's managed across all lines of business in a collaborative and supportive way. I'm really proud of the fact that we have a management team that is operating collaboratively. It's not an easy thing to do these days.

Technology is blurring the lines between a lot of our businesses these days, and that requires a fair amount of collaboration and great communication, and at times, some intervention from the top. But, I'm really proud that the team is working together, and there is a palpable energy, enthusiasm and, I think most importantly, a real optimism about the future of this company.

I hope you get some sense, when you interact with all these people or when you just watch them on stage, that that's the case. Our results in fiscal 2006, and particularly our results this last quarter, are ample proof that all of this is true. I'm really proud of the team. Interestingly enough, it's the team that was largely in place two years ago when we met here.

Dick Cook couldn't make this trip, and we've added a few people to spice things up, John Lasseter and Ed Catmull for instance and Oren Aviv. This is a very seasoned team, an experienced team, and a team that knows each other very well. It's also a team that really appreciates the value that the Disney name brings to all their businesses. And so, enjoy the day. I'll be available at the end of the day to take your questions, and I'm looking forward to that as well.

And with that, here's Tom Staggs. Thank you.

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

As Bob said, we're very focused on creating content that can be leveraged across multiple platforms. I came across a statistic the other day that between 2005 and 2009, distributors will have invested over $60 billion in infrastructure to carry content and data to consumers. And obviously, great content and brands can be a big asset to those distributors in gaining traction and a return on their investment. The good news is, with great content, we can earn a return on their investment as well.

Central to those efforts is Media Networks led by George Bodenheimer and Anne Sweeney so we're going to jump right into it. First up today, you'll hear from Anne, who's been with Disney for a little over ten years now. Under her leadership the Disney Channel has quintupled its reach, and has become one of the best and most powerful brand drivers we have in the company. She's also overseen the resurgence of the ABC network and the rest of our non-sports cable businesses.

So without further ado, I'll turn it over to Anne.

[VIDEO PLAYS]

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

Good morning, three minutes to tell you exactly why I love my job. I wanted to start by showing that piece, because it showcases the Disney ABC Television Group, and it also serves as a very important reminder that in this business, content drives everything. Great content drives our brand. It drives our opportunities. And it drives our revenue, because it drives our audience back to us over, and over, and over again, regardless of what platform they use to reach us.

Now that the world's so focused on the next digital device, it's so easy to forget that the one thing all of these devices have in common-they're driven by content. They're driven by television content. And last month, when we were at the Consumer Electronics Show, companies were flooding the floor with new and better ways to give consumers what they want above all else, their favorite television programming.

In Fortune magazine, they addressed the same issue this month, stating that "In the chaos of today's media and technology brawl, we can declare one unlikely winner. Standing tall in a field of new tech wonders is a technology that is still more powerful than anything created since. 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 TV."

After all the excitement and uncertainty about the digital future, it turns out the biggest news in tech these days is TV, or more specifically, TV programming, which makes our role at The Walt Disney Company more important than ever. I am incredibly proud of our content, and I'm proud of what we've done with it so far. But, I'm especially proud of the team who made it all possible, the same people who continue to push us forward in our quest to create what's next. And you're going to meet two of them this morning.

Rich Ross has turned Disney Channel into a powerhouse in kids' TV and into a key driver of the Disney brand around the world. Steve McPherson has re-invented ABC's entertainment division from development to marketing and everything in between, and he's created a powerful force in primetime. Rich and Steve are combining the most compelling content with innovative technology to create strong, sustainable franchises. They're moving beyond our content, beyond the TV screen and right into the daily lives of TV viewers, and they're growing revenues and opportunities in the process. And they're not alone.

Right now, every one of our television businesses is performing incredibly well. ABC's Primetime won the November Sweep for the first time in seven years, and we continue to be number one in upscale audiences. ABC Daytime continues its winning streak, taking the top spot among the key demo for the ninth year in a row, and *The View* is the only show on daytime television that's posted season-to-date growth with young women.

Meanwhile, with offerings like *World News with Charles Gibson*, *Good Morning America*, and *Nightline*, more Americans still get their news from ABC News -- than any other news source, and now in more ways than ever before including broadcast, podcast, video blogs and other online features at ABC News now. This success translates into bigger ad dollars.

In a flat upfront market, ABC achieved the highest pricing increase of any network in every daypart, and that aggressive pricing continues in the scatter market with increases in primetime, daytime, evening news and *GMA*. And this is good news for us, since we made the strategic decision to hold back our online opportunities for the scatter marketplace because we were confident there would be significant advertiser demand for our entertainment player.

Advertisers bought out all first quarter ad space on the new ABC.com, even without knowing what shows we were going to stream on the site. And we sold out for the second quarter as well with a slight pricing increase.

Our production business is also strong. Four of the top shows on TV this season are on ABC, and they're produced by our in-house studio, which will soon change its name from Touchstone Television to the ABC Television Studio. The change is a part of the strategy that Bob outlined earlier to focus in on our core brands.

Our in-house studio is key to our content business, supporting ABC's stellar performance and the tremendous success of our domestic and international distribution businesses. When you look at the studio's production slate, you can see just how important in-house production is to our company. Shows that are currently in or slated for syndication including *Lost*, *Desperate* and *Grey's Anatomy* will generate more than $1 billion in operating income to the company through traditional and new media platforms like DVDs, syndication, domestic and international license fees.

On the cable side, Disney Channel redefines how we think about success in kids' TV. And *High School Musical* was just the beginning of a record-setting, stellar year that included the incredibly successful launch of *Hannah Montana* and *Mickey Mouse Clubhouse*. Meanwhile, by leveraging original content like the returning series, *Wildfire*, and the summer success, *Kyle XY*, ABC Family delivered its strongest performance to date.

SOAPnet continues to be one of the fastest growing channels on cable, extending its reach by 19% last year into more than 56 million homes. And in 2006, SOAPnet and ABC Daytime joined forces to launch SOAPNETIC, the video-rich broadband service, giving its 13 million subscribers a new way to connect with their favorite daytime dramas and stars.

From preschoolers to kids, tweens to adults, the Disney ABC Television Group reaches all key demos. And this broad appeal strengthens our positioning with advertisers and distributors. It helps us build brand affinity, and it also gives us a strong promotional foundation for the group and for the company as well.

Back in 2005, when I last presented to you, everyone was talking about what the digital future might look like and what it might mean for traditional television. Literally eight months later, Apple's new video iPod gave us our first peak. Our decision to be the first company to put our content online with Apple's iTunes Store helped launch the successful video iPod. Since then, more than 19 million episodes of our shows have been delivered through iTunes, more than a third of all TV content delivered via that site to date.

So, whether you measure demand in ratings on television or sales on iTunes, we clearly have the shows that people are watching. To leverage that in-demand content even further, we created the first broadband player that streams full-length episodes on demand. The ad-supported ABC.com model gave us a separate platform from the retail model of iTunes, and it taught us a lot as well.

For example, we learned that most people use the player to catch an episode they missed on TV. And our research so far also shows there is no cannibalization of the TV audience. In fact, the online availability seems to make viewers more likely to watch the show on TV, and our experience bears this out.

We launched an enhanced ABC.com player with the '06/'07 fall season, streaming a mix of new and returning series. The player has received more than 50 million requests for episodes this season, while ABC Primetime delivered its strongest fall launch in years. And we've also learned that ABC.com is a viable model for advertisers. Our average online viewer is about 28, college educated and affluent, making this audience extremely attractive to advertisers. And the fact that 84% of them can remember the advertiser they saw on the playermakes them much more attractive.

Since January 15th this year, ABC affiliates covering 80% of the country, including our major affiliate group and all ten of our owned stations, have taken advantage of the change to incorporate local advertising into the ABC.com player. When we launch the next generation of the site this fall, we'll expand it into a full broadband channel, streaming ABC shows, news and local content. The new player's going to be geo targeted to local ads and content, but relevant to each individual viewer.

Going forward, we'll continue to work with advertisers to enhance the interactivity of their ads on our player and increase their impact. And we're also going to use our website as a platform to monetize user-generated content. Our longest-running show, *America's Funniest Home Videos*, actually pioneered the user-generated genre by giving viewers the first public showcase for their videos.

The show was put on the air by Bob Iger 17 years ago. Now this summer, we're going to leverage that brand into an ad-supported environment on our website for viewers to use to upload their own masterpieces. I have to tell you, no babies were hurt in the creation of this video. And for those of you not familiar, this is actually called the belly hold, and it's very effective for colicky and gassy babies.

[VIDEO PLAYS]

This is why you never have babies or pets on stage with you.

In addition to these videos, the site's soon also going to offer a robust library of videos from the television show. And our approach gives users a chance to show their own creativity to the world, and it also gives viewers an easy way to find the stuff they want to see.

ABC Family has also gotten into the broadband action. This year, in conjunction with the third season finale of *Wildfire*, the ABCFamily.com site is going to add a new experience called the “Viewing Party”. The new feature will let fans connect and communicate with each other while watching the season finale. And we think this kind of online community will be very popular with the *Wildfire* fans, and with network primetime viewers when we add it to the ABC player in the future.

Disney Channel content is also online here in the US, and since its debut in June, the DisneyChannel.com player has received more than 80 million requests for episodes of Disney shows. Disney Channel in the US isn't ad supported, so the online traffic for ad-supported streaming generates millions of dollars in additional revenue.

The new Disney.com also has a Disney Channel branded environment, giving us another platform for our kids' content, as well as another touch point for advertisers who'd want to reach kids and families. Cross-promotion between the Disney.com and DisneyChannel.com will expand the experience and deepen the relationship users have with our kids' content.

We're also taking some first steps online in international markets. For example, German fans of *Lost* and *Desperate Housewives* can now pay to watch episodes online at Maxdome, ProSiebenSat1’s video-on-demand portal. And they can see them up to seven days before they air on free TV. In addition to online platforms, we're also exploring other ways to put our programming on demand.

For example, we recently closed a deal to offer content including ABC Primetime shows through Comcast's signature on-demand service, and that'll start with the 2007/2008 season. Now, the deal marks the first time our primetime shows have been offered through VOD by any cable company. And in addition to ABC content, Comcast subscribers will also be able to watch Disney Channel original movies and other shows from across our cable networks.

We also have agreements to stream our content, including full episodes in some markets to millions of wireless customers in Asia and Europe. And industry watchers have predicted mobile TV will go mainstream in the next couple of years. An IBM global study estimates it could be a $27 billion market by 2010 when you factor in everything from handsets and software to content and services. Meanwhile, IMS Research predicted that some 450 million people around the world will be watching TV on mobile phones a year after that. And that was before the iPhone was introduced.

ITunes, players, Maxdome, Comcast VOD and wireless phones are vastly different models that achieve the same goals, giving viewers more control over how they watch our shows while providing new, incremental revenue streams for the company. And while it's still too early to predict what these new revenue lines will ultimately contribute, the growing adoption of these platforms by viewers is very promising.

The Disney ABC Television Group has had a great year, and obviously we're pleased with our performance. But, we're also acutely aware of the challenges involved in an industry that seems to give control to consumers with each technological advance. And our biggest challenge is staying relevant to consumers. That means staying closer to them than ever before to better understand what they want, and how we can deliver it in ways that are convenient to their lives.

We've done well so far, because we've paid attention to our viewers and how they actually use our content. And we've built our business models around them. So, our strategy for the future is pretty straightforward.

Our first priority will be to continue to develop and create the greatest shows, because they drive our business and provide the most immediate connection to our audience.

We'll continue to sharpen our brands to cut through the growing clutter of the market, because with more choices than ever before, viewers will rely on brands they know, understand and trust. And we'll continue to identify and exploit the right opportunities to connect consumers to our shows and our brands. In short, we'll continue to create what's next.

And speaking of what's next, I'm now going to turn the stage over to Rich Ross, President of Disney Channel Worldwide. Under his leadership, Disney Channel has emerged as a content engine, driving revenue across national borders, multiple platforms and all lines of business for The Walt Disney Company. As Rich will show you, a Disney Channel hit means huge returns on investment, not just for the TV Group, but for our entire company.

Please welcome Rich Ross.

Rich Ross – *President, Disney Channel Worldwide*

Good morning, and thanks Anne. Want to see something really cool?

[VIDEO PLAYS]

So, I don't know if you knew all the answers, but I can safely bet my house and my car too, that if you have kids, they certainly did. Truly, that clip leaves no question that Disney Channel is a deep-rooted part of kids' lives.

When Anne spoke to this group in 2005, she was focused on how we're growing our reach exponentially. Today, Disney Channel content reaches 500 million homes in 127 countries for our channels and branded programming blocks.

We're using that powerful reach to make Disney Channel an ambassador for the rest of The Walt Disney Company, by giving millions around the globe a true Disney experience. Our mission, first and foremost, is to create content that is relevant to kids. We're unwavering in that mission, and with that focus, we're becoming an incredibly strong creative content engine powerful enough to drive revenues around the world and across the entire Walt Disney Company.

Disney Channel is now part of the daily experience of being a kid. Here in the US and around the globe, kids not only watch our content on TV, they take it with them into their lives. They share the experience with their friends and make Disney Channel content the social currency in their schoolyards, and dare I say, their classrooms. I'm thrilled by that, because our goal is to create something more than great TV. We want to develop great creative assets and franchises, delivered on multiple platforms and across multiple lines of business.

We're achieving that goal thanks to a talented team with a laser focus on what viewers want. Together, we're creating content based on great characters and strong story telling that will live wherever kids are, and will be relevant to whatever they're doing.

In the process, we're driving revenues, not just for Disney Channel, but for the whole company, happily I might add.

Our most recent Disney Channel original movies give us the best examples of this in action. *High School Musical*, *The Cheetah Girls 2* and *Jump In!*, all launched best-selling albums before they even premiered on TV. In each case, Walt Disney Records had a hit from our content, even before Disney Channel did. Our experience with these and other properties in 2006 gave us a new appreciation for the synergy between our kids' television business and the Disney Music division, and for the role that Radio Disney plays in the success of both.

Disney Channel content captures kids' imagination with great stories, great characters and great music. Showcasing that music on Radio Disney, backed by music videos on Disney Channel and DisneyChannel.com, drives demand for Disney Channel content and for soundtracks released by Walt Disney Records. Leveraging this natural synergy makes Disney Channel more relevant to kids than ever before. It also makes Walt Disney Records the envy of the recording business.

The last four Disney Channel soundtracks released by Walt Disney Records went to the top of the charts, including all three of the movies I just mentioned a minute ago, as well as the soundtrack for *Hannah Montana*. All four soundtracks were top five albums, and two went to number one, including *High School Musical*, which was the best selling album of 2006.

Collectively, these soundtracks have sold more than 10 million albums to date, with a strong assist from Radio Disney air play. Radio Disney is now part of Disney Channel Worldwide, offering kid-friendly music from a variety of record labels. Adding it our group is a reflection of Radio Disney's role in the success of our kids' business, and the company's growing dominance in the music industry.

Today, Radio Disney reaches 97% of the US and several Latin American markets. Now that it's part of our group, we're exploring some of our Disney Channel international markets as potential opportunities to extend the Radio Disney brand.

In addition to leveraging this music synergy, I'm incredibly proud of the partnerships we forge with every other Disney line of business from the earliest stage of program development.

We do this so we're all focused on building a franchise from the beginning, instead of just launching a TV show that we hope we'll be able to leverage later. We're building and using these smart partnerships to create a significantly higher return on investment for Disney Channel content than ever before. To illustrate the power of this collaboration, I will take you back to January 2006.

We started the year on a high note with the three words I'll happily hear over, and over again, *High School Musical*. It's a great example of what one hit can do, not just for Disney Channel, but for the Disney brand and revenues across the company. So, in its first year, here's what our original $4 million investment has meant to the company.

Let's start with the soundtrack, which was released by Walt Disney Records ten days before the movie premiered. Here in the US, it's certified quadruple-Platinum and was the number one selling album of 2006. We've sold 6.3 million copies so far, including a remarkable 2.4 million in international markets. The appeal of *High School Musical* is truly worldwide. Sales are strong everywhere the movie has been aired, not just in the

US. In fact, on a per capita basis, fans in Ireland are buying more soundtracks than fans in any other market.

As an avid reader myself, I'm always thrilled when we can contribute to kids' reading. So, I had two reasons to cheer when our *High School Musical* junior novel from Disney Publishing rose to number one on The New York Times best-sellers list. It has sold more than 1.2 million copies so far. In April, Disney Publishing will launch a complete book series that tells new stories of Troy, Gabriella, Sharpay, Ryan and more. Kids can read a great new story in books released every 60 days.

We quickly leveraged the success of the movie with our partners at Disney Consumer Products. The movie premiered in January, and Andy Mooney's team had apparel and accessories in stock at Limited Too by April. Thanks to their smart, strategic licensing agreement, there were plenty of new products in stores and in high demand for holiday 2006 including my favorite, a DVD board game.

If you know a kid in this demo, I don't have to tell you there's no such thing as enough *High School Musical*. Our partners at Buena Vista Home Video released the DVD, and on day one, we sold 400,000 units. But, it didn't stop there. As of today, it has sold 6.5 million DVDs on a global basis, with 4 million of those sold in the US, and a truly remarkable 2.5 million sold internationally.

In the first week of the UK launch, the *High School Musical* DVD far outsold *Over the Hedge* and *Superman Returns*. Sales continue to be strong even though the movie has aired on TV 19 times in that market.

Meanwhile, our friends at Walt Disney Parks and Resorts debuted a thrilling experience for our guests, a *High School Musical*-themed pep rally here in Orlando, which I saw yesterday. It's incredible. It's also in Anaheim and it's slated for Paris soon. And after a landslide of requests, that frankly took us all by surprise, Disney Theatrical Productions licensed an adaptation of the script for school productions around the world.

Using that adaptation, kids in at least 2,000 schools will perform their own *High School Musical* this year. I had the unforgettable experience of seeing the first kid production in upstate New York this summer, and they were fantastic. We've also licensed a professional version to six regional theaters, which began with a sold-out 23 performance run at the Fox Theater in Atlanta last month.

I'm excited by everything we've done with *High School Musical*, but nothing showed the pure electricity of this basic cable TV movie for kids more than the 42-date arena concert tour. It featured our talented cast and showcased songs from *High School Musical*, as well as the cast's solo projects, some of which will be released on Disney's Hollywood Records later this year.

High School Musical has certainly become an international marvel. For the sequel, we turned to our viewers around the world to ask what they wanted to see next. Take a look at how we asked that question.

[VIDEO PLAYS]

So in less than three weeks, Disney Channel websites around the world tallied 44 million votes. And while I know this group would especially like to see results -- I can't tell you now. So, you're going to have to wait to see the movie this summer.

In a twist on the feature film side, our studios plan to leverage the *High School Musical* franchise with an original feature film version for the Indian and Latin American audiences. And Dick Cook just gave me some great news that I cannot wait to share. The Walt Disney Studio will make *High School Musical 3* as a feature film next year. Bop to the top, indeed!

So, I wonder if it's an understatement to say our $4 million movie has taken over the world. It's definitely delivering for The Walt Disney Company. To give you a general idea as to how big this franchise has become, it's projected to generate $500 million in total retail sales, and over 2006 and 2007, it is expected to provide approximately $100 million in contribution to operating income for The Walt Disney Company as a whole.

High School Musical premiered in 2006 in January. Just two months later, we followed it with another big success, our new live-action series, *Hannah Montana*. *Hannah Montana* was last year's number one basic cable series in the US among kids and tweens, and across all TV, was second only to *American Idol* in those targeted demos. Like *High School Musical*, *Hannah Montana* reaches beyond our business to drive revenues in other divisions of the company.

And I'm thrilled to say that *Hannah Montana*'s proving just as popular outside the US. After all, *Hannah Montana* is the story of an international pop star, so I guess it makes sense. Because Andy Mooney's team sold the show to our licensees and retailers before it even aired, we had *Hannah Montana* merchandise in stores just six months after the series premiered. It turned out to be the biggest selling tween line in Macy's stores nationwide during the holiday season.

The *Hannah*-inspired junior novels have sold more than one million copies already. And in the first week, the *Hannah Montana* soundtrack sold more than 280,000 copies to debut at number one on the billboard charts, a first for a TV soundtrack. And it's sold over 2 million copies so far. In June, Hollywood Records will release the first solo CD from 14-year-old Miley Cyrus.

We kept up the momentum as we entered May and expanded our Playhouse Disney brand. By utilizing our strong distribution, we presented our first-ever, same-day global launch, and to add to the excitement, it stars our most beloved character, Mickey Mouse. When we set out to create a new TV series starring Mickey, we knew we had an enormous responsibility to deliver results that we could all be proud of, and we also had a huge opportunity to build on our most valuable franchise for a new generation of fans.

First, we knew we had to reflect the fond memories of parents. Second, we wanted it to feel like a "play date" with Mickey, because during our development process, preschoolers told our research team that Mickey is their best friend. Okay, maybe that's not so surprising, but what staggered us was the fact that even little kids who had never been to our theme park and didn't own any Mickey merchandise felt that way as well. Third, it had to support early learning and embody interactive elements. And fourth, it had to do all that while looking modern enough for the digital era.

The vibrant CG animated series, *Mickey Mouse Clubhouse*, debuted to a new generation of TV viewers, encouraging them to interact, have fun, and learn early math skills. It quickly became our top-rated series with preschoolers, hitting rating benchmarks we only dreamt of in the past. Kids love it and parents love it. They say we captured the fun Mickey, the adventurous guy that revels in the simple joys of life.

Now in addition to seeing Mickey on TV, our youngest viewers can have a wide range of *Mickey Mouse Clubhouse* products. DCP had the first generation of the great looking play sets and musical figurines and stories in time for the 2006 holidays, and they were hot sellers. So, while *High School Musical*, *Hannah Montana* and *Mickey Mouse Clubhouse* certainly show the broad spectrum of our programming, they're each true to the Disney Channel brand, a brand that's all about content that's kid friendly, family inclusive and mom approved.

We not only create content that kids can enjoy with their families, we create content that reflects the importance of family in a kid's life. We know the language of family translates into every culture. Disney is a beloved brand in family entertainment, and everything on Disney Channel is made to honor that heritage and the promise behind it. We make sure everything we introduce to our audience is worthy of the Disney name, and that strengthens the brand and the relationships consumers have with it.

In addition to reflecting how important families are, our programming also depicts many cultures. I'm proud to say diversity is the guidepost, and we work to make sure that kids see themselves, their friends, their families and all people of the world when they tune in. We also want them to see their parents -- the values of their parents, their families and their communities--portrayed on TV in a respectful and positive way.

That commitment started in deference to the diversity here in the US, but it was even more important as we expanded our reach into international markets. As the ambassador of the Disney brand, we seek opportunities to deepen our connection with viewers and deliver programming, including regional content, that is relevant to kids everywhere they live. We've established creative teams in the UK, France, Italy, India, Hong Kong and Japan to create regional content, and we have productions greenlit in each of those territories.

Quelli dell'Intervallo is one of our successes in regional content. Produced locally by Disney Channel Italy, it is the first Italian sitcom starring kids. It launched last summer. It has been a ratings bonanza in that market, and we're now exporting it to other countries with local production in six additional markets so far including the US. We just wrapped our production in Austin, Texas last week. In keeping with our content strategy, it has strong characters, great stories, and its short form format makes it perfect for mobile and Internet platforms.

As I said earlier in terms of creativity, as well as a return on investment across the company, 2006 was Disney Channel's best year ever. But, if you think 2006 was impressive, let me brag a little about 2007. With last month's launch of our new Playhouse Disney series, *Johnny and the Sprites*, we brought Broadway to preschoolers. Take a look.

[VIDEO PLAYS]

Tony nominee John Tartaglia, who you see up there, backed by music from Broadway's hottest composers, and an able assist from some magic Sprites, is truly redefining the term “original” programming for little kids. We also launched the latest Disney Channel original movie *Jump In!* starring Corbin Bleu, of *High School Magical* fame, showcasing the sport of Double Dutch.

I'm told that some of you in the room got jump ropes yesterday.Anne tried to lure me into a Double Dutch competition, but I'm a guy in a suit, and I just can't do it. So if anybody asks, I'm catching a plane right after my presentation.

Lessons from *High School Musical* certainly taught us a lot about how to market our content. We used a lot of these tools to leverage *Jump In!* to become our latest hit. Disney Channel first introduced viewers to *Jump In!* last November with a music video called *Push It to the Limit*.

Over the next month, we debuted three more music videos for the movie. At the end of November Radio Disney put the video on Planet Premier!, a feature that serves as a test area for new music, and after three weeks *Push It to the Limit* was one of the top ten most requested songs. Radio Disney also offered a digital sample of the soundtrack that quickly went to number one on iTunes. When Walt Disney Records released the soundtrack on January 9, it too soared to number one on iTunes, and is now number three on the Billboard Top 200.

Three days later *Jump In!* premiered to the best ratings ever for a Disney Channel original movie, roping 8.2 million viewers including 3.7 million kids. It also commanded huge shares among tweens, and proving a cross-generational appeal, was the number one basic cable telecast for women that day as well.

Our new live action series *Cory in the House*, a spin off of our mega-success *That's So Raven*, debuted that same night to become our highest rated series premier ever. 7.6 million viewers watched the premiere, making *Cory in the House* number one in its time slot, defeating the competition by huge margins.

In May, we'll launch *My Friends Tigger & Pooh*, an interactive preschool series in vibrant CG animation to introduce a whole new generation to the silly old bear, and his friends in the Hundred Acres Wood. Based on our success with *Mickey Mouse Clubhouse*, we have great expectations for this new chance to introduce classic characters to new fans.

Like Mickey, Winnie the Pooh and Pals are some of the most beloved, revered and valuable assets in The Walt Disney Company. By taking these characters into CG and into 500 million homes around the world, we're taking these franchises to a whole new level with wider exposure than ever before. Here's a glimpse.

[VIDEO PLAYS]

Like *Mickey Mouse Clubhouse*, our upcoming *My Friends Tigger & Pooh* will give us a new opportunity to expand the Playhouse Disney brand, and generate revenue for other lines of business within The Walt Disney Company.

We have every reason to be bullish for the future. Here in the US, we finished 2006 as the number one basic cable network during primetime among households, kids 6 to 11, tweens 9 to 14, and total viewers, and we expect to build on that success. We also have a global team that's committed to delivering compelling creative content for kids and families, and to providing franchise opportunities that benefit the entire Walt Disney Company.

I count myself so lucky every day for the job I am privileged to do, and I certainly appreciate the chance to share with you this morning. So thank you for your time and I'll now turn it over to my colleague on the Broadcast side of the business. Since taking over the leadership of ABC Entertainment, he has led ABC to the top of the ratings and the forefront of the industry. Please welcome Steve McPherson.

Steve McPherson – *President, ABC Entertainment*

Thanks, Rich. So I'm going to start with a little show and tell. When I took over at ABC Entertainment a little more than three years ago, the first thing I did was kind of take a look at the assets that we had. So here's a top 20 list of shows from that year. As you can see, we didn't have the best of lists, we basically had two shows in the top 20, and neither one made the top ten.

And on top of that, probably most significantly, we didn't have one scripted series on the list. So right off the bat, I'm a generous guy, I give football to George Bodenheimer and ESPN, look how happy George is. He should be happy, those guys have done a phenomenal job with that franchise. They're setting cable records every day with that thing, so my hat's off to them.

So the good news I guess, was that we had almost a clean slate. The bad news for us was that we didn't have much else, and more importantly we were losing money.

A lot has changed in three years. This year we had seven new shows in the top 20. In addition to those chart toppers, we have other assets like *Wife Swap*, *Ugly Betty*, *Super Nanny*, *Boston Legal* and some other performers throughout the schedule. We have some great facts to show for the work so far.

In 2006, we delivered our strongest start to a season in 30 years. We also won the November Sweep for the first time in seven years, and delivered our second straight year of audience growth, the only network to do that year-over-year in a long time. We have become the definitive leader in every upscale demo, and we're breaking ground as the number one English language network among Hispanic audiences.

The good news is that all translates into dollars. When I got to ABC, I thought of the network's primetime schedule as kind of beach front property without anything built on it. In other words, there was a huge opportunity to improve its value and its return on investment. And to make the most of that opportunity, we decided to reinvent ABC and rethink everything, challenging all conventional wisdom, and breaking industry precedent.

We started with content. We focused on creativity and quality, as Bob said. We turned the status quo scheduling on its head, and we completely redefined the way we marketed TV. In the process I think we have not only changed the fortunes of ABC, we've actually changed the perspective and practices of network television in some ways.

Content is our primary product, and it's our primary focus as well. But content in our business, the word, you can't really describe what that is. High quality content strong enough to build a network on is kind of the intangible combination of writing, directing, acting, producing, that creates concepts and dynamics that audiences fall in love with. It's the stories and the characters that keep people enthralled -- it's what brings them back week in, week out, season to season and now platform to platform.

That kind of quality is elusive, but you have to go for it, there's nothing more powerful when you are able to achieve it. If there's a secret to success in television, I believe passionately that it's the story. As Anne said, everything in TV starts with content, but all content I believe starts with great stories. When you think about it, TV is a pretty intimate experience. Every time you turn on the set you're welcoming people into your homes and it's because you want to see their stories. Take a look at some of the stories that we tell.

[VIDEO PLAYS]

So, I think we've amassed a pretty good list so far. ABC I believe has the most diverse and high quality group of compelling shows on TV right now.

Having quality shows is one thing, but scheduling them is another and I think it's a critical part of the equation. We made a decision early on to be aggressive with our schedule. We were and are willing to make bold moves and to take calculated risks to leverage our content to the greatest impact.

Each week I've got 22 hours to worry about, but they're not all created equal. To build that schedule there are very specific competitive drivers and opportunities you have to focus on. For example, in the first year I think we shocked a few people by taking *Alias* off Sunday nights and putting the then unknown *Desperate Housewives* in its place. That move was the catalyst for our Sunday domination.

Then I think our decision to put *Lost* on Wednesdays at eight surprised most folks, because of the early hour, but from a competitive standpoint it was a critical position for us and we used it and delivered an instant hit. After *Dancing with the Stars* aired in the summer one night a week, we reconfigured it to air two nights a week. And when we began airing it on Tuesday and Wednesday, we immediately were winning those nights.

I think the biggest move that we all know about was *Grey's Anatomy*, and it's kind of a case study of how we've matched quality with strategy to create huge results. First we started the show on Sundays at 10, so the strength of *Desperate Housewives* could help it find an audience.

Then believing the show had huge potential for us, we used the *Super Bowl* as a platform to build it. We scheduled a special episode following the game and not only was it the highest rated post *Super Bowl* in five years, it also then became the number one scripted show in America. Finally with all the chips on the table, we targeted the Holy Grail.

Now ABC had not been competitive on Thursday nights in almost 30 years. The last time we were actually there it was the '78/'79 season with our lineup of *Mork & Mindy*, *What's Happening*, *Barney Miller*, *Soap*, and *Family*. The move of *Grey's Anatomy* to Thursday at 9 gave us our best competitive chance on the most important night of television in the week. So we announced the move in May, and frankly I spent most of the summer not sleeping. But to build a strong network you have to take aggressive calculated risks, and the rest is history. We're number one on Thursday nights this season.

Today, we've got strong positions on four nights of the week. The growing strength of our schedule means we don't live and die by one show, it means we have a broad upscale audience that appeals to audiences and advertisers. Ultimately, it means our schedule is in far better shape than it was a couple years ago, and that's a trend we intend to continue.

Now marketing is another big piece in the puzzle. Starting with the '04/'05 season we changed our marketing in two fundamental ways. First, we revamped the creative from top to bottom. We completely changed the way we looked at messaging and positioning our shows. We got more aggressive, more focused and more effective.

Next, we made the strategic decision to put almost all of our marketing resources behind the shows with the biggest potential impact on our schedule. The very first year we made *Lost* and *Desperate Housewives* those priorities. They were backed by almost 90% of our marketing effort. We created focused campaigns for both shows that broke every precedent.

That summer you literally couldn't get out of the way of our marketing for those two shows. Take *Lost* for example. If you missed the traditional on air spots for *Lost*, odds are you saw some of the outdoor campaign, or one of the missing persons posters that were posted around. Maybe you got on to one of the websites, Oceanic Air or Hanso Foundation.

You could have heard the S.O.S. messages on the radio, or been one of the lucky ones to find the messages in a bottle that we left on the beaches across the country. We made these launches events you could not miss. Since then, we've used that same creative energy and focused messaging, and priority strategies on many shows, and in the process, changed the way TV is marketed, not just at ABC, but across the networks.

Now our turnaround has been driven by our ability to deliver high quality content and high impact ratings simultaneously. As I said, everything starts with great shows, but our scheduling and our marketing is what allows us to leverage those ratings into revenue. ABC is now known for the quality of our shows, our audiences, and lately the quality of our contribution to The Walt Disney Company.

Some of you may remember that the ABC network was less than profitable in '04. 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 at the network and Studio combined. We're driving that performance with great shows, strong ratings and by focusing on our costs as well.

For example, in the last three years we've saved more than $55 million by choosing production locations that give us tax breaks and other incentives. We're also aggressively and successfully monetizing our mega-hits beyond the ABC broadcast platform across markets and multiple platforms. Advertisers are lining up to sponsor our shows on ABC.com. We're getting more than $3 million an episode for some of our shows in the international market.

People buy our shows on iTunes, and as Anne said, Comcast customers will soon be able to buy them on demand. In the DVD market alone we've sold more than 12 million units of *Lost, Desperate Housewives* and *Grey's Anatomy* combined, and that number grows daily.

While these additional platforms can be lucrative and exciting, everything we do and everything I focus on at ABC is designed to draw the people back to TV and to our network. The season finales of *Lost* and *Grey's Anatomy* alone last year generated almost $54 million in ad revenue, that's $13 million an hour. I'm really proud of how far we've come, but we're really just getting started.

Now I really wanted to have some new stuff to show you guys, but we're honestly just getting going with the development pipeline. We've picked up all of our scripts, but we're just starting the casting process. But, I did want to bring something special. About two months ago I had a conversation with Shonda Rhimes, who is the creator and executive producer of *Grey's Anatomy*.

She called because she wanted to try pull something off - she had an idea for February Sweep. Since that call, she's turned that idea into three of the most compelling hours of television you will ever see. The first airs tonight. So this an extended promo of tonight's episode, and these are the kinds of stories and characters that I think now define ABC Entertainment.

Thanks for your time.

[VIDEO PLAYS]

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

Bob talked about the dizzying array of choices that consumers have when it comes to entertainment, and of course this has created clutter in the marketplace, online as well as on television. So in a multi-platform environment like that, it makes it that much more important to have great brands like ESPN that cut through the clutter.

For ten years ESPN has been named by more men than any other TV network as their favorite channel. We do focus groups obviously, and my favorite quote from those focus groups is from a guy who recently said, "If ESPN was a girl, I'd marry her." Obviously, a hopeless romantic.

Today ESPN is really a true multi-platform business, and overseeing that is George Bodenheimer who is uniquely suited I think to run this group. George joined ESPN straight out of Denison University and has been a big part of its success ever since. He actually started in the mail room and he's been delivering for ESPN and the shareholders ever since. So, I give you George Bodenheimer.

[VIDEO PLAYS]

George Bodenheimer – *Co-Chairman, Disney Media Networks, President, ESPN Inc. and ABC Sports*

Thank you Tom. Thank you Hank. Good morning sports fans, it's great to see all of you again. You know I hope I never get tired of hearing Hank Williams open for *Monday Night Football*, I just love hearing it every time, never get tired of it. My rowdy fellow executives and I are here today to show you some recent and anticipated ESPN growth.

Our game plan is to focus on the strength of the ESPN brand, and our three major growth areas which would be our core television business, our digital media assets and ESPN International.

But of course it all starts with the power of the ESPN brand. Our investment strategy in ESPN has generated enormous brand value and brand strength. As you can see here, ESPN remains the most powerful brand in sports media, and by a long shot.

The ESPN brand and our employees' continual focus on our mission to serve those fans is certainly the underpinning for all of our success. These two elements we believe give us a distinct competitive advantage. The power of the brand is certainly demonstrated through fan usage. In fall 2006, 102 million people in the United States watched, listened to, read or logged on to ESPN media each and every week.

Last year, following Bob's emphasis on building key brands in the company, we partnered with Anne Sweeney and the people at ABC, and rebranded all sports telecasts on ABC as “ESPN on ABC.” When you add in the viewership to ESPN on ABC, the number of people exposed to ESPN media in a week soars to 120 million. This total rivals the number of weekly users of the Internet in the United States, as well as all the people who read daily newspapers. It's a big number.

All of our ESPN media platforms experienced growth, (there's that word again) with the greatest increase produced by ESPN.com at 57%. ESPN.com grew from 14 million weekly users to over 22 million. We have more fans using our variety of media and many of them simultaneously, ultimately creating a rising tide that benefits all of ESPN's media.

Another significant metric that illustrates our growth is that our four measured TV networks showed household viewing increases in primetime, with the flagship ESPN up 19% for the year. Based on this research, it's clear that ESPN and all of its brand entities have never been more successful at connecting with fans and their passion for sports ESPN-style. The ESPN brand, our focused mission of serving fans and our increasing audience, all position ESPN for growth.

Now, to take a look at our first key growth area, our television business. Our television business is healthy with a major revenue stream coming from our monthly affiliate fees. We have secured long-term affiliate distribution agreements with many of them,; in fact, in 2006 alone we reached agreements with Comcast, Verizon and AT&T, and we have an existing agreement with Time Warner that we are looking to extend as well.

As you can see here, we're in an extremely strong position with nearly 70% of our household subscribers secured into 2012. As many of you know, for 25 years ESPN's affiliate rate had led the industry, and with these agreements in place our affiliate revenue will certainly continue to grow. Also consistent with our mission to serve fans wherever and whenever they wish to enjoy sports, we have a growing list of networks and services that also generate affiliate subscriber fees.

Of course, along with our successful distribution performance, we are also leaders in ad sales, leaders in male demographics and leaders in cable upfront CPM growth. And we also enjoy the leading share of the sports advertising marketplace, as you can see here, in both households, and importantly male demographics, our bread and butter. We're also leaders in integrated sales. As you know, several years ago we reorganized our sales team and we have a truly cross-media sports sales force, powered by the unifying strength of the ESPN brand.

All of our sales people are empowered and knowledgeable to sell across all of our products, and that is the bottom line. A lot of companies talk the talk on that, but at ESPN we walk the walk. You'll hear more about our multi-platform sales success in a moment, when John Skipper takes you through our new surround approach that we developed specifically for *Monday Night Football*. But don't just take our word for it, here's an Ad Age headline, and a client quote that sums up our ad sales business perfectly.

[VIDEO PLAYS]

Now I wish Deborah were here to say it herself because I love it. I don't think I could have said it any better, it just sums up exactly where we are. A healthy television business is core to our entire business model and we are confident that we are well positioned for the future as our two principal revenue streams, distribution and sales, continue to show solid, you guessed it, growth.

Our television strategy recognizes very clearly that fans want to watch games. The big games like Duke-Carolina last night remain a social touchstone. To that end, we have the sports industry's preeminent collection of rights, with the major cost of programming consequently locked up over a number of years. As you can see here, we have agreements with the NFL, Major League Baseball, NBA, NASCAR, leading soccer organizations and the elite college conferences and the list goes on. And importantly, these agreements aren't just for TV. They cover a wide range of multimedia rights as well.

However, we also understand that we cannot own it all, never said we needed to. There are times when we don't fundamentally agree with leagues on the value of a specific deal. In that case we may forego a TV deal, as we did with baseball's division series, the NHL and PGA Tour, while agreeing to an alternate deal for different media rights. Think about it. It speaks to the strength of our brand and our multimedia platforms that these leagues desire to stay involved with ESPN.

The three that I mentioned, the NHL, the PGA Tour and Major League Baseball, all subsequently completed digital or international rights deals with us. So just because we don't do a deal for domestic television, doesn't necessarily forego that we will do other types of deals with these leagues. When you see us reach a new deal you'll know that it was good value for ESPN.

However, we know from 27 years of experience that it's not just about the games. Fans of course also want news and opinion, that's what makes us sports fans. And we have built a premier sports news franchise, *SportsCenter*, a brand unto itself both domestically and internationally. In fact, *SportsCenter* will celebrate its 30,000 live show in three days, 30,000. We better give those interns who counted them all up a reward, or at least the afternoon off.

Our news and information franchise is uniquely valuable to us and sets us apart from the competition, whether it's *PTI*, *College GameDay*, *NFL Countdown* or the just debuted this week *NASCAR Now*. These shows allow us to serve and engage fans while also fueling all of our media platforms. We have also made a commitment to invest in growing sports where we believe the acquisition of rights is extremely efficient. For example, we believe this is the case with soccer.

We all remember last summer when the World Cup captured the attention of American sports fans like never before. The ratings were up 100%. We have an agreement with FIFA through 2014, ensuring more World Cup action on all of ESPN's media. We also have a Major League Soccer agreement through the same time frame. And now, we're feeling even more confident that Mr. and Mrs. David Beckham and other stars are coming to America.

We also seek to do creative deals. Last month for example we announced an agreement that provides us with an equity stake in the Arena Football League. This equity provides an opportunity for us to share in the upside that ESPN helps create. We believe Arena Football has great growth potential one, because it's football, two, it gives us football virtually year round, and also allows us to program Monday nights on a consistent basis nearly throughout the year.

And we're further adding ESPN creativity to it by importing our popular radio talent "Mike & Mike" - that is Greenberg and Golic - to call the games. So if they're calling the games in the evening, they're talking about it on the radio show in the morning. It's great natural promotion.

Make no mistake, we expect a lot of growth in our television business. We believe that with our dual revenue streams, our unparalleled rights portfolio, our creative deal making and our news and information franchises, that we indeed have the recipe for continued growth.

Since we last met we also reorganized the ESPN management structure, aligning with Bob's pillars for growth for the company, placing our top executives in charge of content across all of our media, technology, international, sales and marketing, finance and administration. Here to talk about content and *Monday Night Surround* is John, the Skipper of content. John?

John Skipper –*Executive Vice President, Content*

Thank you, George. I'll try to keep it rowdy, although the bar is high here.

At ESPN we have a distinct advantage in creating superior content in a coordinated manner. It's really quite simple. We only have one group that creates content:

television, digital, radio, magazine, consumer products and mobile content are all created within a single organization.

Second, we have an unparalleled collection of segment leading platforms, clearly the number one position in sports television, we are the number one sports radio network, the number one sports Internet site, we're number one in sports wireless publishing. And these leading platforms all have a single brand, allowing us to maintain identity across all platforms to fans.

ESPN is passionate about sports. But we are agnostic as a platform, indeed I might say we are aggressive as a platform. We want to serve fans what they want, when they want it and on whatever device they choose.

We have a distinct technological advantage, one of the most advanced digital facilities in the world. This is our idea of a beauty shot. What this means, is that our content is created and distributed digitally in real time.

We have unprecedented flexibility and nimbleness in moving content across platforms. With this unique organization and technology, we have the ability to evolve beyond the traditional three-hour game window; instead, we surround the fan with multimedia football content for 24 hours. That is *Monday Night Football Surround*. That is content innovation. That's the evolution of our content. Let's take a look please.

[VIDEO PLAYS]

Tom Murphy's advice is pretty good, just roll the video. We love *Monday Night Football* at ESPN and we really love the results of our *Monday Night Football Surround*, they were nothing short of phenomenal. Versus last year's *Sunday Night Football* we achieved a 43% increase in households, a 39% increase in ratings, a 41% increase in total viewers, exceeding all our expectations.

While there was much discussion about all NFL games being up, the other three regular season networks FOX, CBS and NBC saw single-digit increases. We won the night in total audience for both broadcast and cable television four times, an unprecedented feat for a cable network. Every Monday night we led all networks, broadcast and cable, in all key male demos.

And in my most favorite chart of all time, we had the 17 top rated cable programs of the year. They have sort of a numbing similarity, *Monday Night Football* ESPN, *Monday Night Football* ESPN, *Monday Night Football* ESPN. I like it very much. And if you look at the very top, the October 23rd Giants and Cowboys game became the most viewed telecast in cable television history. And you might want to know that prior to Tiki and T.O., Ross and Al in that stimulating entertainment known as the NAFTA Debate was the most viewed of all time, but we have a new winner. Ding, ding, ding, *Monday Night Football*, most viewed ever.

Just as impressive is the manner in which we went to market to sell this surround strategy. Our go-to-market strategy was innovative. Instead of selling stand alone 30-second spots we sold advertising packages across television, Internet, magazines, radio and wireless. We preempted the upfront market and all our competition by getting our packages to incumbents four months before the upfront broke.

In addition, we changed the dialoge in the press, and created a new metric to measure surround multimedia. That new metric is a rating for a full day of football programming. With this, we're able to increase our television CPMs in excess of 10% and increase our total ad revenue from *Monday Night Surround* content nearly 40%. We generated ratings and revenue, as well as tremendous praise from marketers and the press.

Before, I never knew I was in the Buffalo business, but Michael Hiestand said, "With ESPN's use all parts of the Buffalo strategy, TV ratings are only one thing to be carved out of *Monday Night Football*." The good news is we don't think this is a one-trick Buffalo.

This is a repeatable phenomenon that we will take out of the garage -- I'm now helplessly mired in puns and mixed metaphors -- on our latest sports vehicle, NASCAR. As we think about creating content around the sport, we always start with the fan. For the NASCAR fan it's not just a race, it's a way of life. This is the debut of a brand new launch campaign.

[VIDEO PLAYS]

Perhaps no sport resonates as emotionally with its fans as NASCAR. I believe our new NASCAR programming will resonate with fans as well. It really is about three deals in one. First, we will feature 35 Busch Series races, which is all of the races, primarily on ESPN2. Second, we will showcase the final 17 NEXTEL races, including for the first time ever the entire chase on a single network, ESPN on ABC. And to no surprise, we will surround those races with news and information and new media content.

NASCAR content will appear on 14 platforms in all. Just as we use Hank Williams to get *Monday Night Football* viewers excited, we have a plan to get NASCAR fans excited. I want to premier right now our new NASCAR opener with Aerosmith, which will debut February the 17th at Daytona, which will be our first race, and our reentry into NASCAR.

[VIDEO PLAYS]

That should get people excited. Me, I'm excited to be rounding turn three of this presentation, and I'm going to turn the wheel over to our driver of digital strategy, Salil Mehta. Salil?

Salil Mehta –*Executive Vice President, ESPN Enterprises*

Thanks, John. If there's just one thing you should take away from my comments it's this. ESPN's investment in the digital business is paying off. Digital media is ESPN's next big growth opportunity. As we expand, ESPN digital media is focused on that ESPN mission; to serve sports fans wherever sports are watched, listened to, discussed, debated, read about or played.

And increasingly, fans demand their sports on computers and mobile devices, and our brand strength gives us a distinct advantage. In fact, compared to just five years ago, adults are spending 32 more minutes more per day, and young men are spending even more time, 42 additional minutes per day, on the Internet over those same five years. And on mobile phones over 35 million people access content regularly with substantial growth expected.

And we know unequivocally, that on these platforms people are engaging with ESPN. By every metric our usage is growing. As George referenced just a few minutes ago, ESPN.com's growth is up 57% this past year, and ESPN.com enjoyed record traffic every month in 2006. ESPN.com's video usage more than tripled, and ESPN360 doubled its distribution, and is now available in 15 million homes and our "WAP" site is number one in all of sports.

And we're by no means done, there is plenty more great content and features we plan to introduce this year. We will extend our leadership in sports video online, introduce new franchises and expand key existing ones. We're going to tap the sports community with ESPN.com's *SportsNation*, and strengthen our leadership in mobile sports content. Let's go through these one at a time.

Increasingly the web is ever more about video and, no surprise, ESPN knows video. With our unique proprietary multimedia player and literally hundreds of videos each week, fans can watch hours of highlights, interviews, original features, analysis and more on ESPN.com. As the Skipper mentioned, ESPN will provide extensive highlights of every race, interviews with drivers and video blogs as part of *NASCAR Surround*. And beginning on March 1, let's roll with Dickie V.

[VIDEO PLAYS]

He's like a shot of Espresso. And speaking of awesome, baby, we're tipping off an even better era with taking the *SportsCenter* brand online with *SportsCenter Minute*. Here's what it would have looked like if we did it today.

[VIDEO PLAYS]

And remember, *SportsCenter Minute* starts Monday with AT&T with our first sponsor. We continue to add even more franchises like ESPNHighSchool.com, which will be the online home for high school sports. At ESPNHighSchool, schools will be able to establish profiles for their teams, and we are developing plans to provide a community for high school sports fans. We're also planning to feature high school sports fans live on ESPN360. ESPNHighSchool.com lets us tap another important growth segment. No one has established leadership in these local markets yet, we know they have a large audience and no one can package it all like ESPN.

Our next growth engine is fantasy sports. Today over 10 million fans participate in fantasy sports, and these fans are our best customers. Fantasy players consume three times more ESPN media per week than our average fan and they spend 4.5 times more hours with ESPN.com. And regardless of where they play online, ESPN is the leader in providing the deep content fantasy sports addicts crave. In fact, in a recent survey more than 40% of fantasy players said ESPN has the most useful fantasy content, and that's double our nearest competitor.

And we continue to introduce new fantasy sports. We're offering two NASCAR games and we're having great success with Fantasy Soccer. Now few sports tap the attractive young demo like action sports, and for action sports fans no brand is more powerful than X Games. We'll bring that franchise online with a new and enhanced EXPN.com to keep young fans engaged with the X Games year round. It'll feature a broad coverage of action sports with a video rich experience, and we also plan to introduce community features there that action sports fans will want.

The Internet is a great place to capture the passion of our fans who love to debate about sports. And we'll soon tap that with an expansion of our *SportsNation* community. We'll give fans their own voice, letting them create profiles, write blogs and argue with each other. Sports fans will not only come to ESPN.com, they'll be a part of it. And we're always adding our unique personality. Our own talent will be participants in *SportsNation*. Here for example is Bill Walton's own profile page where fans can ask an NBA legend just who is the greatest basketball player.

And with all this great content, fans want the ability to control their ESPN.com experience. As we've added more content we're also pleased to be able to offer a fully customizable home page for our fans called MyESPN. This gives fans the ability to access even more quickly ESPN's great content on their favorite sports, teams and players. And just as important, MyESPN lets our fans pull any news, weather, blogs, pretty much anything from around the web that has an RSS feed and put that all on their MyESPN page.

Now, more and more fans want their sports while on the move, and that brings me to mobile. We're already the leader in wireless with our WAP site that we license to all carriers, and we're pleased to announce that we will be adding two more great products to maintain that leadership. Just this morning we signed a licensing agreement with Verizon Wireless that will bring the award winning Mobile ESPN content experience to subscribers of Verizon's VCAST service.

I'm also pleased to share another announcement:ESPN will be launching a new network, ESPN Mobile TV, that will be launching on Verizon's new mobile television service using Qualcomm's media flow platform. Now with all this activity we've got great opportunities to monetize our digital media businesses and we will do so by focusing on advertising and subscription revenue.

The digital advertising market is projected to grow at least 10% annually over the next five years, and with all the great concepts we're introducing, we are very well positioned to take advantage of this trend. We also expect to grow our subscription revenues with ESPN360, ESPN.com's premium products and our Mobile portfolio.

To conclude, we not only have the largest sports TV audience, we have the largest sports multimedia audience. By leveraging our brand and our content, we're developing extremely strong digital businesses that are poised for, what's our favorite word, growth. Now, back to the boss, George.

George Bodenheimer – *Co-Chairman, Disney Media Networks, President, ESPN Inc. and ABC Sports*

Good job. Thank you, Salil. Let's turn our attention now to ESPN International. ESPN is indeed a global enterprise, and the last few years have indeed been game changing for our business. We're growing our television businesses, our rights acquisitions, our *SportsCenter* franchise, and new media around the world. ESPN International's now grown to 32 networks. Today, I will focus on Europe and Asia.

In 2001, we launched ESPN Classic Europe, our first branded presence there, focusing on the greatest moments in European sports. About a year ago, we launched ESPN Classic in the UK, our first-ever ESPN branded network in that country. Today, ESPN Classic is available to 20 million households in over 40 countries throughout Europe. Recently, we completed our next major step, our acquisition of the North American Sports Network, which reaches six million subscribers in Europe throughout more than 25 countries.

NASN is the only European channel dedicated to North American sports. Its dynamite line-up includes Major League Baseball including the World Series, the NFL including the *Super Bowl*, the NHL, college football and much more. These developments will allow us to accelerate our European businesses. In Asia, ESPN STAR Sports, or ESS, just celebrated its tenth anniversary. And this joint venture with News Corp. has simply never been stronger.

For example, we recently acquired ICC cricket rights for the next eight years. This landmark agreement makes ESS the exclusive TV rights holder worldwide for the 2015 Cricket World Cups. And as many of you know, this content is absolutely key for our business in the Indian sub-continent. ESS also recently extended its exclusive live coverage of the English Premiere League through 2010.

In addition, our *SportsCenter* franchise is expanding in Asia and indeed around the world. Outside the United States, we now have 11 versions, 11 versions of our flagship program with others in development. Last month, we launched *SportsCenter* in Australia and New Zealand. Let's take a look at this short piece that will give you a flavor of *SportsCenter* around the world.

[VIDEO PLAYS]

It is great to hear that *SportsCenter* theme song. Dah nah nah, dah nah nah. Come on, how was that? Around the world, I love seeing that. Yes, it's pretty rowdy.

Just as in the US, we are focused on both Internet and wireless expansion around the globe. ESPN's international television networks are complemented by six websites. ESPN's Soccernet, the world's leading English language website for soccer news, scores and information is expanding soon into four additional languages: French, German, Italian and Spanish.

Mobile ESPN, our wireless content group, distributes ESPN branded content via WAP, SMS, data applications, games, wallpapers, and yes, ringtones. We are active on five continents, in 31 countries, in seven languages with 24 different carriers with Mobile ESPN. Aligning with Bob's focus on international, ESPN International continues to be a priority for us. And as in the US, innovative content creation and technology will drive our growth.

In closing, I am very proud, extremely proud of our management team at ESPN and indeed the efforts of all of our people, whose passion, loyalty and commitment continue to grow ESPN globally. No one is delivering more sports content to fans through new technologies across multiple media platforms around the world than we are at ESPN.

Through our television business and multi-media rights portfolio, our affiliate distribution agreements, our integrated ad sales approach, our digital and international strategies and our intense never-ending focus on our mission to serve sports fans, ESPN's brand and leadership in sports media, I do not believe has ever been stronger, nor better positioned for growth. At the top of our presentation, we posed the question, "Are you ready for some growth?" At ESPN, we are. Thank you.

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

Welcome back. We're going to do two more sessions before we go have lunch, the first of which is from Disney Consumer Products. Disney's Consumer Products business is unique in its scope and scale and it reflects the leverage inherent in both the Disney brand and in our Company's portfolio of beloved characters.

Andy Mooney is Chairman of Consumer Products and leads this group. Since Andy joined more than six years ago, he and his team have strengthened Disney at the retail level.

They've encouraged product innovation throughout the licensing business, and they've redefined and strengthened relationships with some of the world's largest and most trusted retailers. Andy by the way in November had his first child, Rose. And so, he now is going to be able to live everything he's been working on over the last seven years at Disney. So, here to talk about our franchise management approach and our current initiatives is Andy Mooney.

Andy Mooney – *Chairman, Disney Consumer Products*

Thanks. Thank you. I think that was Rosie's first public recognition. Good morning, everyone. Disney Consumer Products, or DCP for short, is comprised of four distinctly different businesses. And with the presentation today, I'd like to offer you a fresh way to look at DCP and let you know how we've laid the groundwork for substantial growth in two of these four businesses.

If you look at DCP's 2006 financial overview, a few key things stand out. Licensing continues to be our largest business, contributing close to $1 billion in revenues and almost $700 million in operating income with margins in the 70% range. According to all independent rankings, Disney is the largest licensor in the world by a substantial margin.

Despite this, in most of the categories that we believe are potential markets for us such as toys, children's apparel, home furnishings and stationery, Disney holds market shares in a 1% to 5% range. Toys is our highest market share with only 5%. In children's apparel worldwide, we hold 2%, but we have 1% or less than 1% in most other categories. Given the strength of the Disney brand relative to our current market share in key categories, we believe Disney has ample room to grow in our largest and our most profitable business, licensing.

Publishing, currently our second-largest business, generated over $400 million in revenues in '06 and over $100 million in operating income with approximately 20% margins, which are exceptionally good margins for a publishing company. We manage a blend of licensed and vertical businesses geographically, and we have significant share of the global book and magazine market for children at over 25% share. Now, because the overall industry is at best flat, and because of that healthy market share we currently enjoy, we target modest growth for this segment.

Our video game division generated nearly a quarter of a billion dollars in revenues in '06 with a modest loss. We invested roughly $100 million in product development last year, and we plan to increase that by $30 million again in 2007. Now, accounting conventions in video gaming involve expensing product development costs as incurred. And as a result, it will be a few years before we see normalized margins as we grow this business to scale. Graham Hopper, General Manager of our Interactive Gaming division, will offer his insights into the video game industry overall, and our key growth strategies for the segment later in the presentation today.

Disney retail generated almost a half billion dollars in revenues in '06, mostly from our own brick and mortar operations in Europe, and our own online retail operation in North America. The combined retail group generated a modest profit. We also operate Disney stores in Japan and North America under license to the Oriental Land Company and the Children's Place respectively. We expect an ongoing lift in retail margins in '07 as royalties from the Children's Place come online for the first time. Longer term however, we do not see owned or licensed retailers as a growth driver for the division.

DCP's blended contribution margins in '06 were 36%. We incurred overhead of $182 million to achieve a reported margin of 28%. Going forward, we target licensing margins to remain constant, but overall operating margins to improve slightly as video games and retail margins improve over time. We plan to leverage our fixed cost base, and therefore expect reported margins to also improve.

Now, as we target 90% of future operating income growth to come from merchandise licensing and video game publishing, the remainder of the presentation this morning will focus on these two businesses. I will now take you through key growth strategies for merchandise licensing, all of which are underpinned by the fundamental strength of the Disney brand. Given the importance of brand strength to future growth, I'd like to briefly offer you two perspectives on that strength.

The first is an external perspective from The Landor Company's most recent brand asset valuator, ranking Disney in second place in the world behind only Coca-Cola. The second is an internal perspective of the time measured in hours that consumers spend immersed in the Disney brand, which in 2006 amounted to a staggering 11.1 billion hours.

For example, consumers spent over 8 billion hours watching Disney Channel around the world, 800 million hours at our parks and resorts, 450 million watching Disney movies in theaters and another 350 million hours watching them at home. Kids still spend over 450 million hours reading Disney books and magazines worldwide, but now spend 250 million hours playing Disney video games.

The immersive quality of the brand experience is one of the many things that differentiates Disney from all other brands. No amount of paid media dollars could substitute for the time a guest enjoys at a Disney theme park and the emotional connection this creates. Brand strength is important to us at DCP, because brands with high, unaided awareness like Disney, Coca-Cola or Nike invariably command high market shares in core categories.

I ask you to contrast the market shares you see in the slide behind me with the market shares shown earlier for the various businesses within DCP, and you'll see that publishing is the only division within Consumer Products that's even close to reaching its full potential. The impact to our bottom line will be significant if we're able to double the market share to, say, 10% or children's apparel to just 4%, both of which we think are achievable. So, let me give you a flavor for how we're going to do that.

A key, long-term strategy has been to expand our franchise portfolio to connect to a broader range of consumers, and we've made real progress against this. A company-wide franchise development process exists, led by Bob, where all divisions work together to create content in support of the company's key franchises, each of which is targeted at a distinct consumer segment. In order to more effectively serve consumers, retailers and licensees, Disney Consumer Products segments consumers into five groups and then aligns each franchise with a specific consumer segment.

In the infant segment, we create *Baby Einstein* DVD content and partner with Disney's Home Entertainment division to distribute that content worldwide. For preschool-age kids, our efforts are increasingly aligned with Disney Channel's Playhouse Disney block. Success began with Disney Channel's launch of *Little Einsteins* in '05, the even more successful launch of *Mickey Mouse Clubhouse* in '06, and we're looking forward with excitement to the upcoming launch of *My Friends Tigger & Pooh* in just a few months, which will give us the proverbial trifecta in the preschool category.

For boys, the annual thematic update of *Power Rangers* in television has been the key to sustaining this evergreen franchise. *Toy Story 3* is currently in development at Pixar, and we have a company-wide plan in place to sustain *Cars* as a franchise. With the second installment in the *Chronicles of Narnia* series and the third sequel in the *Pirates of the Caribbean* franchise to come from our live-action studio, DCP now has the luxury of multiple property options for boys.

For girls, the platinum release of *Little Mermaid* last year fueled continued growth in Disney Princess, and there are currently several new Disney Princess movies in development at Pixar, Disney Feature Animation and our live-action studio. At the 2006 New York Licensing Show, Dick Cook and I communicated the company-wide plan to develop Disney Fairies as a companion collection to Disney Princess. And I'll talk about that more in a moment.

And of course, we have multiple red-hot, tween girls properties now to draw upon from Disney Channel. Again, it began with *Lizzie McGuire*. It continued with *Raven*. Retailers and licensees jumped on the *Hannah Montana* express almost from day one, and we're quickly capitalizing on the *High School Musical* sensation that Rich talked about.

And DCP continues to have a high-end boutique business, targeting young adults in the apparel, accessories and now home furnishings and contemporary interpretations of vintage Disney art. A recent initiative in this area was the launch of Walt Disney's signature line of home furnishings, anchored by North American licensee, Drexel Heritage. This 30-second television spot will give you a flavor for this high-end, high-quality line.

[VIDEO PLAYS]

It's interesting to note that every single product in these images is Disney branded with no characters. It's not just the furniture. The product line embraces tableware and high-end bed linens for example. And although we term this a boutique program, we anticipate this line will generate $300 million in annual retail sales for our licensees within the next few years.

Another successful example of this type of approach is Disney Jeans. This product line anchored by denim bottoms for children and young adults has grown into a more substantial offering including Disney-branded tops and footwear. Disney Jeans was launched in Europe at Carrefour, and has recently been extended to C&A. We successfully launched Disney Jeans in Japan with trend-setting retailer 'Right-on' and have opened full blown Disney Jeans retail stores under license in other parts of Asia.

We're in final discussions now with a major retailer to launch Disney Jeans in the biggest denim market in the world, the US, where we're close to signing a deal with a premium denim brand to introduce a boutique version of the line as well. Demand for Disney Jeans is gaining momentum, and we now anticipate generating $500 million in retail sales for Disney Jeans within the next five years.

The second key strategy has been to create new Disney-branded properties within Consumer Products and our publishing, video gaming and licensing divisions that if successful, could create opportunity for other divisions across The Walt Disney Company. The phenomenal success of Disney Princess is well documented. The franchise generated $3.4 billion in retail sales in 2006 and continues to grow.

We also have significant long-term growth expectations for Disney Fairies.

Disney Fairies content and products are targeted at a slightly older girl than Disney Princess, and are offered in a significantly different color palette, to ensure that the product line represents an incremental sales opportunity for both our retail partners and our licensees. Disney Publishing birthed Disney Fairies working with renowned author Gail Carson Levine, who penned the critically acclaimed *Fairy Dust and the Quest for the Egg*. Gail's novel lingered on *The New York Times* best-seller list for 19 weeks and introduced a bevy of new characters supporting Tinker Bell.

It's worth noting that Tinker Bell has a pre-existing fan base with 4% of all products bought at Disney's parks and resorts. If 4% of DCP retail sales were Tinker Bell products, Fairies would be an $800 million retail program before the first piece of new content airs. So, imagine if you can, what the potential for Tinker Bell and Disney Fairies, longer term, could be.

DisneyToon Studios is further building upon Disney Fairies by putting into production a series of four CGI animated video premiers. In these videos, Tinker Bell will speak for the very first time, thanks to the help of actress Brittany Murphy. Brittany will be joined by Raven Symone, Kristin Chenoweth, Lucy Lu, and our very own America Ferrara from ABC's Ugly Betty. This really reflects the diverse ethnic backgrounds and personalities of the cast of Disney Fairies, which is a key facet we considered in story development.

So, here's a preview of the trailer that will be seen next month with the re-release of *Peter Pan*.

[VIDEO PLAYS]

And speaking of Disneyfairies.com, what's unfolding behind me on screen is the home page, which Walt Disney Internet Group went live with just a few weeks ago. One of the features of this site is the ability to create your own unique Disney Fairy. It's been up only a few weeks, but before the site went officially live and without any pre-publicity, the visitors to date generated over 130,000 unique fairies. Now, Disney Fairies really represents an expanded definition of synergy at The Walt Disney Company.

Synergy really used to be one-dimensional in that we all worked together to ensure box office success for our animated slate. We still do that today better than any other company in the entertainment industry. The synergy under Bob has been expanded to embrace company-wide support for properties created, not just by Disney's film studios, but also from Disney Channel and now Disney Consumer Products. This approach is creating incremental opportunities for all divisions.

To demonstrate how much progress we've made in terms of diversifying our product portfolio, in 2000, Mickey and Pooh accounted for 80% of total DCP revenues, and both properties were stretched across a very broad range of demographics out of necessity as this is all that we had to work with. In 2006, Mickey and Pooh are larger in absolute dollars than they were in 2000, representing $13 billion in annual retail sales. But, along with our *Einstein* franchise, they now account for a healthier 54% of total and are more focused on the preschool segment.

Our girls properties, which include Princess and Fairies, have grown to 16% of total, and our boys properties led by *Power Rangers*, *Cars*, *Toy Story* and *Pirates* now account for a healthy 11%. The 19% block represents the plethora of riches from The Walt Disney Company that we have to work with, and it's divided between merchandise programs from recent releases like, say, *Finding Nemo* or classics such as *Bambi*. It also represents the growing tween segment with our programs built around Disney Channel properties like, of course, *High School Musical*.

Another long-term strategy at DCP has been to expand the range of business models that we offer to retailers. Our apparel program at Carrefour, Europe's largest retailer (the second-largest retailer in the world), is a good example of just one of DCP's new business models, Direct-to-Retail Licensing. Private-label brands like Tex at Carrefour priced at the base of the price pyramid continue to grow and the universe for higher-priced national brands, like, say, Petit Bateau priced at the top of the price pyramid, continues to decline.

Historically in a category like infant apparel, DCP would have licensed a wholesale brand like Petit Bateau who would then price Disney at the very apex of the price pyramid, limiting our market share potential. With direct-to-retail licensing, Carrefour becomes the licensee. They select the suppliers, and we partner on product design and development. In this model, Disney products are priced at a modest premium to Tex, but at a discount to Petit Bateau, and in this space, we generate significant volume.

Now, this can be a somewhat theoretical exercise. So, let me show you exactly what I mean in real product terms. I'm a product guy, so I can't help myself. My daughter Rose is running around naked right now. This onesie here is from the brand Petit Bateau, very high-quality base fabrication, but a very simple screen application on the front and back. This garment retails for 21 Euros. This is a Tex.

This is Carrefour's private-label brand, base of the price pyramid, identical base fabrication, multiple embroidered applications, and most mothers would actually rank the quality of this garment higher than the quality of Petit Bateau. This garment retails for 9.90 Euros.

Remember, under the old model, we would have come up in above Petit Bateau. So, this is the Disney garment sold with direct-to-retail licensing, same base fabrication, same multiple embroidered applications. And we actually throw in a little piece of added value for luck. And this retails at 12.90 Euros. This is a real-life example of how we can create quality improvements and price improvements that allow us to build market share in key categories with key consumers.

We've been developing new business models for several years, and in 2006, roughly 17% of total revenues came from models like direct-to-retail licensing. By 2010, we anticipate over 30% of revenues coming from new business models, and it's a key strategy to build share.

The final strategy I'd like to talk about today concerns our relationships with the 30 global retailers who comprise our global key account group. We focus resources on these accounts in order to aggressively grow share, and positive results have come with it. Key accounts represented half of total DCP revenues in 2006, up from just 40% two years ago. As we look forward, we see this number climbing to over 60%. Retail consolidation does not concern us.

Our business models, in fact, allow retailers to access the equity of the Disney brand with an economic model offering them higher margins than with even their own private-label brands. We began investing in field sales offices to better meet the needs of our key accounts five years ago. In the US, we have offices adjacent to Wal-Mart in Bentonville, a Target in Minneapolis, Sears, K-Mart and Walgreens in Chicago. Internationally, we have offices adjacent to Carrefour in Paris, Tesco in Cheshunt, Asda in Leeds, and Metro and Aldi in Dusseldorf.

In most cases, our staff can drive to the buyer's office in less than five minutes. And in some cases, we can walk to the buyer's office in less than 60 seconds. No entertainment company can compete with us here. In fact, very few multi-national packaged goods companies have the depth and breadth of buyer relationships that Disney now enjoys.

DCP's licensing division is organized fundamentally differently from other entertainment companies. We first reorganized licensing in 2000 from one large generalist organization, to three smaller specialist organizations, focused on toys, apparel and hard lines, and we created a key account, retail sales and marketing group. More recently, we segmented hardlines into stationery, home, food, health and beauty, and most recently, consumer electronics. And we see the opportunity to create another new team in the very near future focused on the growing $75 billion global market for pet products.

Licensing at Disney consists of six focused category teams led by and staffed with industry expertise from the respective category, with each leader managing a substantial global business generating over $100 million in operating income. The skill set and experience of the cast members at DCP are fundamentally different from those of, say, Warner Brothers. We tend to recruit high-caliber product design, product-line management and key account sales management personnel. The competition recruits generalist deal makers.

DCP has almost doubled in size in seven years from $12 billion in 2000, to $23 billion in 2006, measured in terms of retail sales by our licensees. But, we're still just scratching the surface in terms of tapping into the potential of the Disney brand from a market share prospective. The combination of brand strength, a solid strategic direction and talented cast members, and most importantly, an ever-expanding roster of valuable franchises, is paying off at DCP.

With that, I'd like to pass the baton on to Graham Hopper, who's going to talk about the second significant growth opportunity within Disney Consumer Products, video gaming.

Graham Hopper – *Sr. Vice President and General Manager, Buena Vista Games*

Thank you, Andy. Good afternoon, everybody. I'm very pleased to tell you that as of today, we are changing our name from Buena Vista Games to Disney Interactive Studios. This change reflects our focus on creativity, the weight of Disney content in our portfolio, and the enormous value that consumers see in the Disney brand. Now, let me show you why we're so excited about the potential for the games business.

The games software industry is big, and it's getting bigger. We expect continued double-digit growth rates as the industry doubles in size from $22 billion, to $48 billion by 2010. Even the established console, PC and handheld market is growing at double-digit rates from $17 billion to $30 billion. Playing games is an important part of the lives of boys, girls and adults, and it's a business we need to be in.

It also sits at the heart of Bob’s three growth priorities. I'll show you how we have embraced the rapid advances in technology to create vibrant ways for consumers to interact with Disney, and how we're committed to delivering the high-quality experiences that people expect from The Walt Disney Company. Playing games is a universal human desire like watching movies or TV, so game content will play a significant role in extending our brands and franchises across the globe.

With continued economic growth developing new international markets and technological advances happening globally, we have billions of potential consumers to reach. Today, we reach only 15% of the global population, so the long-term upside is enormous. It's worth noting that there are some segments of the game business we don't want to be in. So, starting with the $17 billion console, handheld and PC market as a whole, we can segment out two pieces.

The $3 billion sports segment is handled through our long-term relationship between ESPN and Electronic Arts. And the $1 billion hard M category is out of bounds for us. Our focus is on the biggest chunk of the market, the $11 billion E through T categories, where there is enormous opportunity for the Disney brand, both to extend franchises and to create new ones. We decided to transition from licensing to self publishing in video games a few years ago to better tap the profit potential of publishing.

So, take the example of an average $40 retail game. What would a typical licensor collect? If you take a look at the blue segment at the bottom of the chart, you'll see that a licensor would net $2, a risk-free $2, but only $2. As a publisher, we take on more risk, but we access 75% of the value chain.

So, publishing makes sense for Disney, and it reflects our confidence in the strength of Disney's property portfolio, the game success achieved with recent hit franchises and our excitement about the pipeline of outstanding creative content to come.

We're also convinced that Disney Interactive Studios will create valuable new franchises and become an important creative engine for the company. A strong publishing business along with the flexibility to maintain key licensing relationships will give us the best of both worlds. Games based on Disney movies are great investments, and there are several reasons for this. Family movies in general have a high correlation of game sales to box office results. And it's no surprise that Disney-branded movies over-perform at the box office relative to unbranded movies. Furthermore, there's a cost advantage, because our games draft off the movie marketing push, and in return create great exposure for the movies themselves.

Now, let me take you through the economics of licensing versus publishing. The Y axis shows contribution in millions of dollars. The X axis shows worldwide unit sales in millions.

Disney's tentpole animated releases typically generate worldwide game sales in the 2 million to 6 million-unit range. As the red line shows, with licensing, there is no risk of losing money with a steady progression of revenue as unit sales increase. The blue line shows publishing. You start off with an investment to recoup, but you soon hit breakeven and start generating significantly more profits.

In the case of *Chicken Little*, a solid box office performer, you can see that publishing delivered almost two and a half times more to our bottom line than licensing would have. Properties like *Finding Nemo* or *Cars* do even better. They're literally off the chart. So, the message is simple, the more successful the movie, the better the economics of publishing. And as the studio team will show you later today, the creative pipeline of Disney movies is stronger than ever and it is obviously a strong positive for our investment in games.

Hit television properties are also great investments. Andy referenced the phenomenal eight billion hours that viewers spent watching Disney Channel. The character awareness that this generates helps us build a significant day-in, day-out business, predominantly on handheld platforms. Initially, other game publishers were skeptical about the potential for the tween franchises created by Rich Ross and his team, because after all, everyone knows that girls don't play games.

But fast-forward four years, *Lizzie McGuire*, *Raven* and *Kim Possible* each generated over a million units worldwide on handheld platforms. Retail success with these games has also been a leading indicator of merchant mass success for other parts of Disney Consumer Products, and we expect *Hannah Montana* to bring more good news. *Hannah Montana* was the star of holiday 2006 for us. It is already selling faster than any previous Disney Channel title. We shipped 400,000 through December 31st, and

Hannah seems set to join the million-unit club as we expand our product assortment over the next 12 months.

It's this synergistic focus on strong brands and franchises that helped us grow revenue in our published business by 25% from holiday 2005 to 2006. And to put this growth in context, in North America, we are now the #3 publisher on Nintendo GBA for both 2005 and 2006. And on Nintendo DS, we are #4 in 2006, up from #10 in 2005. But, to get the whole picture of the weight and presence of Disney in the game space across all videogame platforms, you need to add in our licensed properties too.

2006 was a particularly good year for our licensing business with two smash hits. Measured by units sold, *Cars* published by THQ, was the second-largest multi-platform release in the industry, just behind *Madden NFL*. And for six months this year, *Kingdom Hearts 2*, published by SquareEnix, was the best-selling new PlayStation 2 game in North America until it was finally dethroned by, guess who? Our old friend, *Madden.* Add published and licensed game sales together, and collectively, we jump up to number two on Nintendo GBA, and number two on Nintendo DS, in both cases, second only to Nintendo itself.

We've built a very strong position on handheld platforms, and we're making significant investments to grow our share of the console market. And today, if you add our licensed and published revenues across all handheld, PC and console platforms together, Disney is a top ten player coming at number seven. So, though Disney's already a meaningful player in video games, we're confident that we have a lot of room to grow our business. That's why we're growing our investment in product development and creativity by 30% this year to approximately $130 million.

90% of it is being spent supporting the Disney brand, while 70% is being spent on games using Disney-branded film and TV properties ranging from *Pirates of the Caribbean* to *High School Musical* and 20% on entirely new Disney-branded games, potential franchise like *Spectrobes*, which I'll show you later. The remaining 10% is being spent on non-Disney games like *Turok*.

Because of our commitment to quality, access to creativity is the single largest determinant of our growth.

Over the last two years, we have grown our internal creative capability by adding four development studios, and we expect continued growth in our studio portfolio. These studios are filled with some of the best and brightest creative and technical minds in the industry. Each studio was acquired as part of an overall strategic plan to add specific talent, technology and product expertise. These are then deployed against a full range of games and platforms in our product portfolio.

In Salt Lake City, award-winning Avalanche Software is firmly aligned as the go-to studio for properties from Feature Animation. Avalanche will soon release a suite of games being developed for our next Feature Animation release, *Meet the Robinsons*. In partnership with the movie's creators, we have created entirely new settings. These provide for a fun adventure that will enhance and complement the movie experience and vice versa. But, let me show you some of the fun that players will have the Nintendo Wii version of the game.

[VIDEO PLAYS]

With the success that we've had on Nintendo DS and the potential that we see for the Wii to similarly facilitate gaming innovation and to expand the gaming audience, we started a sister game studio in Salt Lake City called Fall Line to focus on Nintendo platforms. We have 25 people hard at work right now and expect this to grow to around 50 people later this year.

Propaganda Games in Vancouver, Canada, is hard at work on our upcoming, next-generation action game, *Turok*, which by the way, is getting great advance press with enthusiasts.

Late last year, we acquired Climax Racing in Brighton, England. This team is one of the most acclaimed racing genre developers in the industry. With multiple awards for their work on various racing franchises, this studio is going to bring a new dimension to our portfolio in the near future.

We're launching our first complete suite of next gen video games this May, based on *Pirates of the Caribbean 3*. Our next gen platforms are perfect for us. Our traditional strength in character development, visuals and storytelling translate beautifully to next gen gaming. Technology is finally letting us craft the immersive experiences that rival those perfected by established media, and our treasure trove of content will come alive like never before.

We firmly believe that by staking out a creative and technological leadership position in games, we will enhance the Disney brand overall. The high-definition visual fidelity in game-play innovations we are creating will immerse players in the pirate world like never before. The PlayStation 3 and Xbox 360 games are a perfect example of how we can marry creativity and technical innovation. We will bring Jack Sparrow to life in your living room.

The rapid growth in the installed base of high-def TV sets over the last few months will mean that more players than ever will get the picture. And to give you a sense of the difference, here is Jack Sparrow as seen on a PS2, not bad at all, but still a video game character and not really real. With facial scanning, we can create a high degree of realism, and we did a facial scan of Jack Sparrow late last year during the filming of the movie. So, here is the new next gen model of Jack Sparrow as you will see him on PS3 or Xbox 360 for example.

The lush, high-definition graphics and fluid animation will make Jack Sparrow seem almost real. And side-by-side, you can really see the improvements. But, beyond just more realism in characters and settings, we're going to be exploring the entire story out to the movie trilogy with all new environments, new characters and new story elements. This is an immersive and realistic pirate world. The piece I'm about to show you is all from the game, no live-action footage whatsoever. Take a look.

[VIDEO PLAYS]

And we like this property so much we plan to create additional *Pirates of the Caribbean* games to keep this franchise alive and vibrant for years to come.

In addition to capitalizing on the wonderful creative work elsewhere in the company, video games also have the potential to independently generate franchises for The Walt Disney Company. Our first major gaming franchise was born through a creative partnership with SquareEnix of Japan.

Kingdom Hearts, shown here on the PlayStation 2, features over 150 Disney characters and has sold over 10 million units worldwide. This franchise re-imagined Disney for a new generation and instantly connected with both young and old. And we truly hit the trifecta with players almost equally split between kids, teens and adults. It also completely refutes the notion that Disney cannot succeed with core gamers. If the product is right, gamers will come and they will play.

As you can see, successful video games can be a powerful creative engine for the company. And this is especially true when we create entirely new franchises. When you look at the biggest boys franchises today, you can't miss the tremendous impact that Japan has had in the last ten years. Billion-dollar properties like *Yu-gi-oh* and *Pokemon* come to mind. Both properties are hugely successful as video games, and in a range of ancillary businesses. It's too often forgotten that *Pokemon* actually started as a video game.

Spectrobes is the title of our foray into franchise creation. Our creative team in Glendale came up with the idea of developing a high-quality, Disney-branded game that would take full advantage of the Nintendo DS. The DS is a dual screen, handheld game platform with some key features we believed we could exploit to create a really innovative game. The touch screen, the microphone and Wi-Fi capability all allow a new and fun way of interacting with the game.

When we discussed how we were going to turn this concept into a working game, we made a critical early decision. We just knew it had to come from Japan. The look, the feel, the characters all had to be authentic and true to the animated inspired story. So, we engaged Kyoto-based game developer Jupiter to develop the game, the same team who had created *Kingdom Hearts - Chain of Memories* for Game Boy Advance. Not only did they know how to make high-quality, handheld games, they were immediately passionate about the content, and that's a great combination.

In order to set up the back-story for *Spectrobes*, we hired a team of writers to develop a TV-friendly script and used a Tokyo animation house to create six online webisodes that will serve as a prequel to the game. In the webisodes we meet Rallen and Jeena, two 17-year old Nanairo Planetary Patrol officers, who get drawn into a battle to save the universe from the evil Krawl, by harnessing the power of extinct fossilized *Spectrobes*. The 3 minute webisodes will allow gamers to get to know the characters and environments of the game, and are being released every month on Disney.com and game sites leading up the game's launch.

The game also features a unique innovation that blends trading cards and video gameplay in one. *Spectrobes* ships with a set of four coded trading cards that you can use on your DS touch pad and trade with your friends. By tapping on the specific touch points unique to each card, the player will unlock rare and unique creatures in the game, as well as special items to customize their *Spectrobes*. This is an industry-first, and we have applied for a patent.

Additionally, we're using Wi-Fi for multiplayer challenge matches and have online download of even more codes to unlock more customization. Let's take a look at the game in action.

[VIDEO PLAYS]

Based on the feedback we've had from both gamers and game reviewers so far, we are very encouraged about the prospects for *Spectrobes* as a long-term franchise. In fact, we've already started concept work on *Spectrobes* 2.

We're still in the very early days of what is possible. As is true for every other part of the company, the key to success in games is our focus on creating high-quality entertainment experiences that transcend borders, demographics and platforms.

We are still in our investment phase, but we've built great momentum over the last few years, and all of us at Disney Interactive Studios are very excited about the fantastic products we have in development right now. Without a doubt, the best is yet to come.

And now, I'll hand it back to Andy to close. Thank you all very much.

Andy Mooney – *Chairman, Disney Consumer Products*

Thank you, Graham. To very briefly close, I just want to once again highlight a few key points.

Given Disney is the largest licenser of intellectual property in the world, you might actually be surprised to hear that we never use the term merchandise licensing in DCP. We use licensing as a primary business model as it offers us flexibility and financial reward. Increasingly however, we're actively involved in the creative design of the products our licensees produce, and we work very closely with retailers in the sales and marketing of half of our total business.

We're open to going vertical in businesses like publishing and video gaming where strategically and economically it makes sense, but licensing will continue to be an attractive model for DCP. We actually embrace growth and global retail consolidation and are one of the few brands benefiting from it. Our business models in combination with the Disney brands are more attractive to retailers than the traditional models offered by world-class consumer brands.

DCP is unencumbered by infrastructure and we're unbounded by category walls. We're flourishing in apparel, toys, publishing and video gaming simultaneously with ample room for growth in almost every category.

With that, I'd like to thank you for your time and your attention. Thank you.

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

Our International group is focused on expanding the depth and breadth of our brands and businesses globally. The growth of distribution platforms, from cable, to satellite, to Internet and mobile, is providing new opportunities to reach consumers around the world. But this proliferation is taking different forms and has different implications across those various markets.

At the same time, we find that the Disney brand is uniquely appealing across geographic and cultural boundaries. Andy Bird, President of Walt Disney International, is the person charged with coordinating our approach across businesses and geographies. So, working in conjunction with business unit managers around the world, Andy is responsible for overseeing growth opportunities for Disney outside the U.S. in both established and emerging markets.

Andy came to Disney a few years ago with extensive experience in the development and operation of television and radio businesses internationally. By the way, if you did an Internet search on Andy Bird, you might have read that Andy once dated Madonna.

[Visual]

Much to Andy's chagrin - and Madonna's relief - this rumor is absolutely not true. So with that, here's Andy Bird.

Andy Bird – *President, Walt Disney International*

Thanks. She did date someone called Andy Bird. He works for Warner Music. He is British.

So, all there is between you and lunch is me and the rest of the world. So, since I have you for the next three hours, we're going to get cracking here. And what I want to do is spend a few minutes giving you an insight into some of the visible, and not so visible things we've been doing to increase our international efforts in the international arena, primarily around the Disney brand since George touched on the great efforts ESPN is making internationally in his speech earlier.

First, the numbers.

For fiscal 2006, International markets represented nearly a quarter of the Company's revenue and operating income. Versus last year, international revenues increased 8%, or approximately $600 million, while international operating income increased 32%, or approximately $400 million. This growth was driven primarily by our strong film slate, robust growth in our games and consumer products licensing business, increased demand from broadcasters for our TV product and lastly, a full year's operating results for Hong Kong Disneyland.

This work we did last year on 2015. This work really gave us a great base from which to build our international strategy. I did have something in there that Tom was going to mention, but since you didn't mention it, Tom, we'll move on. We did a whole survey on how we see the future of the world in 2015. We believe that the Media & Entertainment sector is at a point of inflexion, moving from a pure export model to a global one.

Media and content are being consumed by more people in more countries at a faster rate than ever before. The world is also going to become more fragmented with greater choices, but we think that the strength of the Disney brand, franchises and story-telling capabilities will set us apart from our peers. In addition, because we have so many branded-business opportunities, we have a flexibility to enter into and adapt to each market in a unique way.

Now, I want to show some industry infrastructure data that supports our optimism for global expansion. At the same time, it will begin to set up our unique market approach.

As you can see, the US & Canada contribute 31% of the world's GDP, with the Developed Markets contributing another 42%. We define the developed markets as Western Europe, Japan and Australia. Our emerging markets are Greater China, India, Russia, Latin America and Korea, and I will explain our rationale for these groupings in just a moment.

While our "emerging" markets represent just 16% of the world's GDP today, they are projected to contribute 26% by 2040. Along with television, mobile phones and PCs will drive most entertainment consumption in the future and here I want to show you the distribution of these mediums using our market definitions. The emerging markets represent 31% of the world's broadband subscribers, which is more than the US & Canada.

How about mobile phone subscribers? At 45%, emerging markets represent more than the US, Canada and developed markets combined.

In the TV world, traditionally the biggest distribution channel for entertainment, emerging markets represent over half of the world's multi-channel households. You know that we have a strategic focus on content and focused aggregation.

Globally, consumers spend approximately $600 billion on these pieces of the media & entertainment value chain. The US & Canada represents only 35% of that spend, while the remaining 65% exists internationally.

With 25% of Disney's non-theme park revenues generated internationally, the opportunity to close the gap further supports our optimism for international growth. We feel confident that our ability to not only develop compelling content, but also to deliver it to consumers through numerous branded distribution channels gives Disney a unique competitive advantage to capture this international opportunity.

Before moving on however, I want to highlight the importance of local content to closing the gap. When local content is removed from the global media & entertainment numbers - leaving only MPA product produced and exported from the United States -

the inverse is true, with only 40%, rather than 65%, of spend generated in international markets.

Therefore, as an exporter of US content, we are doing well, but upside remains if we consider opportunities beyond the export model. Taking the local content argument one step further to the country level, you can see that a significant portion of the theatrical, home entertainment and character based consumer products spend is driven by locally produced content.

This is especially true in markets like Korea where 50% of the box office and 60% of home entertainment spend is driven by Korean content. We've already made significant inroads to penetrate the local content opportunity including creating localized versions of hits like *Desperate Housewives*, co-producing local films like *Secret of the Magic Gourd* in China and developing locally appealing character based merchandise like *Marie* and *W.I.T.C.H.*

Here's a quick taste of some of these local content initiatives.

[VIDEO PLAYS]

Just a little clip, four examples from four different business units and some of the local content initiatives that we're undertaking. You've heard previously and you'll hear later about more and more focus on local content to supplement the great content that's being produced here in the US. The first clip you saw was *The Secret of the Magic Gourd,* and will be our first Disney branded locally-produced movie in China - it looks good and you can't beat a cute gourd.

Before we delve too deeply into the local content opportunity, I want to address the paradigm shift that we've taken towards how we operate and organize ourselves in international markets. Earlier I discussed groups of countries as either Developed or Emerging, and you saw quantitatively how important both are in terms of GDP and entertainment infrastructure.

Looking at those same markets from a slightly qualitative perspective will explain further why we've grouped them in such a manner. Generally speaking, the developed markets of Western Europe, Japan and Australia have similar consumer preferences to the US while the emerging markets of Greater China, India, Russia, Korea and Latin America have relatively different consumer preferences.

From a regulatory standpoint, the emerging markets are generally much more restrictive and/or unstable. Similarly, the competitive landscape is changing much more rapidly in emerging markets as global companies such as Disney look to expand into these markets while local players aim to exploit the consumer preferences for local content.

Lastly, Disney has a well established presence in the developed markets while only recently has any real presence in the emerging markets.

Now that you understand how Disney views the world, I will explain how we've changed our philosophy towards individual markets. In the developed markets where Disney has established businesses, we retained a vertically integrated line of business structure and product focused P&Ls.

In order to give greater empowerment to the local businesses in these markets and to create growth opportunities from within, we have formed executive committees comprised of members from each line of business to drive key company wide initiatives such as Franchise Marketing Priorities, Brand Management, Local Content, New Media and Investment & Acquisitions.

These country executive teams meet monthly and are supplemented by the European Steering Committee, which is comprised of the regional heads of all our European businesses.

They also meet once a month to develop growth strategies for the Company regionally and Bob, Tom & I are committed to meet with them several times a year to discuss their ideas and provide support. Now, this is a real change from the past of driving everything centrally out of Burbank and pushing everything out into the regions. Today, we're trying to create and encourage local autonomy and decision-making.

In the emerging markets, we felt the need to be entrepreneurial, nimble and free of traditional structures. In these markets, we've implemented an integrated organization with a market focused P&L. We appointed Managing Directors with total responsibility for every piece of business in their respective territory. They can make decisions on the best organizational structure, product offerings, investment and acquisition strategies. In fact anything that is related to their territory is under their control.

Additionally, the market focused P&L ensures that proper trade offs between lines of business can be made to capture the unique growth potential of the media & entertainment market. We want to have the ability to move quickly and not be constrained by existing practices elsewhere in the Company. On a broad level, our overall strategic approach within emerging markets is to build the brand, penetrate our core lines of business and exploit unique opportunities.

As you will see shortly, our specific approach towards expansion within these markets leverages a unique Disney core competency, namely the ability to reach consumers through numerous distribution channels encompassing not only traditional media outlets like television and film, but also merchandise, branded retail, mobile and internet. Given the unique market landscape within each of these countries, Disney's vast and flexible distribution network creates a strong competitive advantage.

We can create the right mix of assets to reflect the unique market dynamics of each country - all sharing the Disney brand as a common denominator - something no other media company is able to achieve. If we take a look at how these markets stack-up against one another, it's no surprise that our developed markets still contribute the lion's share of the international revenue and operating income.

Emerging markets are growing the top-line at a very fast rate, and while some of that is being reflected in the very modest operating income, we're still in accelerated investment mode, so much of the revenue from these emerging markets is being spent locally to grow the business. To give you more details on the strategies we're pursuing in China, India and Russia, I've brought along our managing directors from these markets to talk to you directly and later answer your questions.

So please join me now in welcoming them on stage - firstly Marina Jigalova-Ozkan, Managing Director for The Walt Disney Company, Russia. Joining Marina is Rajat Jain who is Managing Director for The Walt Disney Company, India and finally, Stanley

Cheung, Managing Director for The Walt Disney Company, China. They've all traveled an enormously long way and probably deserve a little round of applause.

So Stanley, if we start with you, why don't you take us through the market strategies and dynamics for China?

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

Okay, thanks Andy, and good afternoon ladies and gentlemen.

In China, government regulation and piracy have a substantial impact on the Media & Entertainment sector. The vertical axis on this chart represents degree of government regulation while the horizontal axis represents degree of piracy. The top right hand corner is the area with the least regulation and piracy and thus, is the place to be.

Filmed Entertainment is constrained by both high levels of government regulation and piracy. For example, film distribution is subject to an import quota of 20% foreign revenue share for films per year while Home Entertainment must contend with a piracy rate over 90%. Media suffers from less piracy but is subject to even higher levels of government regulation. Foreign broadcasters are basically locked out of the market for now and even Chinese broadcasters are prevented from showing foreign animation during primetime.

Fortunately, the landscape for consumer products and new media is far more favorable. These business segments benefit from large and growing markets, improving infrastructure and comparatively lower levels of government regulation and piracy.

As a result, consumer products and new media will be the key growth drivers in China over the next few years for Disney. Core to our China strategy is therefore accelerating growth in consumer products and continuing to build mobile operations.

With regard to consumer products, we've already established over 4,200 branded corners and are expanding into tier 2 and 3 cities. We have also established key account programs that will allow us to exploit the booming organized retail sector. Looking to the future, we plan to continue our geographic and channel expansion through integrated marketing and retail programs and dedicating resources to key retail channels.

Additionally, we are working to expand into the infant, toddler & preschool categories as well as cooperating with retailers to develop a direct-to-retail business in various product categories.

On the mobile front, we have already introduced branded handsets with embedded content and launched licensed content including multimedia messaging and games.

Moving forward, we plan to continue to push our high-quality content through this platform and develop a robust mobile game business.

The growth of our consumer products and mobile businesses will require further strengthening of the brand and given the limitations within media and filmed entertainment, we need to find new ways to deliver content.

Some of the initiatives currently planned include increasing penetration and marketing of Disney DVDs - we plan to create regular multi-line business events around the launch of Disney-branded DVD's to create a far greater impact to ensure our stories and characters are well-known in the market.

We're also creating innovative programs, where we sample short stories with our favorite characters on a DVD and bundle it with consumer products to entice people to our content and to increase product sales.

We also plan to increase Disney programming on TV by developing closer relationships with broadcasters. Additionally, live entertainment will play a key role in building the brand and to this end, we plan to bring Disney on Ice and Disney Live to China regularly in addition to developing a custom show that will help seed our core franchises in the minds and hearts of families throughout China.

On the new media front, we will revamp our Disney.com site along the lines of the re-launched Disney.com site you will see later, to increase its appeal to the Chinese consumers.

To exploit the consumer demand for local content, we have already co-produced one film, *Secret of the Magic Gourd*, that was shown earlier and will be released in a few months. We will continue to look for additional Disney-branded TV and filmed entertainment co-production opportunities as well as look to aggressively create local versions of other Disney hits, like *High School Musical*.

China's unique landscape also creates several opportunities, including the potential to monetize the enormous demand for English Language Learning products. Recent surveys show that 81% of Chinese consumers feel Disney is educational. Therefore, we feel the opportunity exists to create unique products and services to meet this consumer demand.

Additionally, the large and growing online and console gaming business should align well with the Company's overall investments in this area, including the development of China specific massively multiplayer on-line games such as *Mickey Hoverboarding*, a game created in partnership with the local interactive media company, Shanda.

Andy Bird – *President, Walt Disney International*

Great. Thanks a lot, Stanley. As you can see, a great deal of China's strategy is focused around the new media space and consumer product space due to the restrictions on television and filmed entertainment in that market. Showing how we can adapt the assets that we have as a company to suit the particular market entry dynamics of each market is better contrasted if we turn our attention to India. Rajat, why don't you take us through the market dynamics there and a bit about your strategy for The Walt Disney Company in India.

Rajat Jain – *Managing Director, The Walt Disney Company, India*

Thanks Andy and good afternoon everybody. For India, we have a market dynamics chart similar to China, but the vertical axis is changed to barriers to entry and the horizontal axis has become market growth. Again, the top right hand corner is the place to be.

TV and New Media have the lowest barriers to entry and the highest growth rates. Consequently, we expect these business segments to be a key growth driver in the market. The combined size of the filmed entertainment market is also relatively attractive.

However, India has a very strong indigenous film industry - Bollywood - which accounts for nearly 95% of the product released in the market. Opportunity exists, but we will need to think beyond our current export model to grow this segment. Unlike China, there is very little infrastructure for modern-format retail in India.

Consequently, consumer products will require patience and innovation to grow. As you saw on the previous slide, television comprises the bulk of media & entertainment spend, and given most households still have only one TV, much of that spend is focused on general entertainment, primarily local indigenous content. Therefore, we plan to optimize our TV offerings to capture a larger share of this significant and rapidly growing segment.

Our TV offerings already include Disney Channel and Toon Disney that reach more than 30 million households as well as the recently acquired Hungama, the highest rated kids channel in the market driven largely by its locally relevant positioning and localized content. We're also very pleased to have taken a 15% stake in UTV, a leading Indian media company with interests in Bollywood, TV, animation, games and mobile.

Talking of New Media, we will also look to launch new channels onto addressable platforms like DTH and IPTV, two distribution channels that are seeing considerable growth and offer a larger opportunity to capture subscription dollars.

TV will form the basis for getting the Disney stories, franchises and characters out into the marketplace. No other segment has witnessed the type of growth seen in the mobile space. In less than a year, the handset base has almost doubled from 85 million to over 140 million.

We have already established distribution agreements with the major mobile service providers and have begun developing local content such as games and mobile comics to monetize consumers' thirst for mobile value added services.

As discussed earlier, the size and importance of the filmed entertainment market in India can't be ignored. However, it must be approached in a very localized manner.

We plan to begin producing Disney-branded Bollywood movies within the next 12 months. The production of local Disney branded films can drive the Disney brand and widen the family appeal by resonating with a large percentage of the population. Additionally, it can create local character franchise opportunities that can be monetized across all of our lines of business.

To further exploit the unique significance of local content, we also plan to create a local version of Disney hits like *High School Musical* as well as produce more local series such as *Vicky & Vetaal* and the ever-popular '*Dhoom Machao Dhoom*'.

Although our significant branded TV presence and film production plans are expected to contribute a great deal to building the brand. We, like China, will look to Live Entertainment as a cornerstone to developing franchise and brand affinity.

We successfully introduced characters to Indian families last year with the promotional show, *Disney Magic*. In the future, we plan to continue to pursue promotional opportunities but also introduce ticketed shows such as *Disney on Ice* and *Disney Live*.

Lastly, but certainly not least, we have begun seeding our brand and products in organized retail markets and have even launched licensed specialty stores in the jeans and stationery categories.

We see great promise for our consumer products business as foreign and local corporations look to invest over $15 billion into retail infrastructure over the next few years.

Andy Bird – *President, Walt Disney International*

Very good. Thanks a lot, Rajat. And so that gives you a quick contrast in China being very consumer products led and TV and film behind them, in India it's the inverse, very focused on TV and filmed entertainment to allow their consumer products and retail business to grow as that business itself consolidates foreign direct investments allowed into the country.

Last but by no means least, Marina, why don't you tell everyone a little about Russia and the strategy for the market there.

Marina Jigalova-Ozkan – *Managing Director, The Walt Disney Company, Russia*

Thank you, Andy.

Moving onto Russia, we've employed the same market dynamics chart, and similar to India, both television and new media appear to be attractive segments. However, unlike India, the markets for kids merchandise and movies also show immediate potential, largely due to a more developed infrastructure and the rise in the middle class as the economy prospers on the back of Russia's oil and gas industry.

The TV environment in Russia today is much like the US was 25 years ago, where terrestrial networks drove the bulk of viewership and revenues. Although inroads are being made to develop a pay TV infrastructure, we believe terrestrial networks will continue to dominate for some time.

Like China and India, piracy is a challenge in Russia, particularly in the home entertainment arena. Surprisingly, numerous Disney films and TV series made their way into Russia during the Soviet era. However, they weren't always tied to the Disney brand. Thus, while many of our franchises have strong awareness, increasing brand affinity is a priority for us in Russia. Key to developing this affinity will be placing branded programming on major terrestrial networks. The broad reach and strong growth of terrestrial TV should also translate into increased demand for our licensed TV shows such as *Lost*.

As mentioned earlier, pay TV is in the early stages of development however, we plan to aggressively seek ways to launch a Disney Channel on this platform as it allows us to reach income qualified households with a very strong brand image.

A common theme among China, India and Russia is the importance of live entertainment in building the brand.

Last year, Disney orchestrated a multi-media promotional campaign for the Princess franchise centered around a Cinderella Ball that was held at the Kremlin. More than

2,000 junior prince and princesses had the opportunity to live a fairy tale that ultimately appeared on terrestrial TV, print, outdoor, point of sale and internet media.

Going forward, we plan to bring *Disney on Ice* and *Disney Live* shows to the market to further increase the love for the Disney brand and key franchises. Within the large and growing mobile value added services market, we successfully launched several games and personalization products this year and plan to expand this business by establishing direct relationships with the top mobile service providers as well as localizing all of our content going forward.

Within filmed entertainment, we have already made significant strides with the recent launch of a theatrical distribution joint venture with Sony Pictures. This structure should allow us to fully control the marketing and promotion of Disney films and monetize the rapidly growing multiplex environment, all while minimizing the overhead burden.

Given the high piracy levels within the home entertainment space, we plan to continue to focus on large key accounts, optimizing shelf space and maximize the brand messaging.

On the consumer products front, we plan to focus initially on key categories that provide brand building opportunities, financial rewards and limited complexity such as high-end apparel, toys, games, magazines and consumer electronics. Additionally, we will leverage our multinational partners such as Auchan and Metro to develop and distribute Disney product.

Great. Thanks very much, Marina. So as you can all see China, India and Russia provide significant opportunities for Disney to grow in the years to come and we believe that our ability to deliver compelling product to multiple distribution channels allows us even greater flexibility to build market share. This competitive strength will set us apart from other media and entertainment companies in these markets.

Now with only 90 minutes to go before lunch, I'd like to throw it open to the floor for your questions. And since the session is being Webcast, if I could ask you to wait until a microphone comes before asking your question. Number one.

Audience Member

With Disney's strong return on capital discipline, how do you think about the returns on capital for programming initiatives in India and the consumer products leading the way in China and Russia? I'm interested in how that fits into Disney's return on capital growth.

Andy Bird – *President, Walt Disney International*

As you know return on capital is a very important metric for the company and one that Tom never lets us forget. What's important though in these markets, particularly in the three markets here given some of the examples you've just heard about, is that we do invest both behind the brand and behind building characters both locally and from the importing of US-originated product.

As we look at return on invested capital in terms of whether it's the localized movies or television product, or other initiatives we're going to do it on a market-by-market basis, we always have in mind not so much short-term returns but what it does for the greater good of building The Walt Disney Company's presence in that market. That is strategically much more important to us than an individual short-term return on capital goal.

Audience Member

A question for all three of you. I grew up here in the States and in Minneapolis, and I know what the Disney brand means and how it resonates in terms of the American consumer. But I don't really understand what the awareness is and how it resonates with the consumers in each of your markets. Can you spend a little bit of time on that?

Andy Bird – *President, Walt Disney International*

Okay. Stanley, would you like to start?

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

Yes. For China I'm happy to tell you that the Disney brand is the most popular foreign entertainment brand in China. We have very high awareness. We actually have been in China since the '30s when *Snow White* was first shown in China and in the '80s when Mickey Mouse was on CCTV. And ever since the Disney brand and characters have been household names. Disney's family value and our entertainment are widely recognized in the market.

Now we need to do more. We all know that in the US most of the people have actually grown up with Disney and that's what we want to achieve in China. We think it's important for the market to continue to build. The first priority is to build our brand and our stories, and that's why I talked about how we are going forward with a more innovative program to get our stories and our characters out there. We're looking at building the next generation of kids loyal to Disney, same as in the US.

Andy Bird – *President, Walt Disney International*

Rajat?

Rajat Jain – *Managing Director, The Walt Disney Company, India*

A little bit different from China, Disney has been there for a few years now, but really in the last couple of years. What's interesting to note is that the values of the brand and the family values are very similar to the values that are there in an Indian family tradition.

I see a lot of opportunity for this brand to go well with the Indian consumers. As of now the brand is well known, but I think if we scratch very deep into the surface, the knowledge of stories, the knowledge of characters is relatively limited. We are using a lot of our properties and a lot of our channels to build this.

Andy Bird – *President, Walt Disney International*

And Marina, you mentioned in your speech about the Disney product being out there, but not always attributed to Disney brand.

Marina Jigalova-Ozkan – *Managing Director, The Walt Disney Company, Russia*

Disney movies have been in Russia since the '30s, like in China, and they were shown 30 times in the movie theaters. Today when we look into the data, Disney is considered the number one entertainment brand in Russia, but our goal is to add more local relevance and to show the deep values of the Disney brand that sometimes are not really known to the Russian consumers. So our target is to make Disney brands not only known, but very locally relevant and a part of the lives of the Russian people, which is not the case right now.

Andy Bird – *President, Walt Disney International*

I would just add to what the three of them have said. Stanley mentioned *Snow White* going out in the 1930s. One thing that generally we see internationally is that we do benefit from what Walt himself and the company were very aggressive about - getting the product and the brand out from the very first movie, from the 1930s. So the reach of the Disney brand and of the characters on a broad scale is very, very apparent. What we have to do is what Rajat was saying -really build on the understanding and creating the depth so that there's a real amount of depth and then a local relationship between the brand and the consumer on a country-by-country level.

But if you look at most of the brand metrics, there was one that came up earlier from Andy Mooney. If you look at the Interbrand study, Disney is always in the top ten of worldwide brands. I think this year it was the sixth brand in that study. That forms a great basis, and since we do put our name above the door and consumers make a conscious decision to consume, we believe whether it be through the Internet, the television or at retail, having that Disney name, being out there in the market and having a local relevance is going to set us aside from what our peers are doing.

Audience Member

Just wondering if you could address piracy - about it being somewhat problematic in your regions. I was just wondering what Disney is doing to address that and to get involved in each of the regions in trying to turn the tide? Thanks.

Andy Bird – *President, Walt Disney International*

Stanley, China is a market where there's regular piracy?

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

Yes, The Walt Disney Company obviously takes piracy very seriously, and in China we have seen our brand and our consumer demand actually increase pretty substantially when we get the product, the pricing and the distribution right. In the past two or three years, this has translated a lot into the merchandise that we sell at organized retail.

We also noticed since last year that China is already moving towards creating a lot of indigenous content that they themselves value, and we believe that the protection of the IP rights will actually rise in the coming years and we look forward to that.

In terms of our plan, as I highlighted just minutes ago, we plan to create a business model that has pricing, distribution and marketing control that we would be able to create across lines of business, that we will have a far greater impact on what we are selling in terms of merchandise as well as movies and DVDs, so that we can actually offer real competition for the pirated product.

Andy Bird – *President, Walt Disney International*

As you've seen with the aggressive stand the company's taking and proactive nature of making our products available on as many different platforms as possible here in the United States, the same is true in international markets. We truly believe that proactively making our content locally relevant and available to as many people in a legitimate form is a good defensive strategy and a way of combating the piracy issue. We intend to be very aggressive on the proactive strategies moving forward.

Audience Member

Thank you. My question is about venture capital investing. In each of the markets that you operate in, do you each have a capital venture arm? Or is that on a consolidated basis internationally? And the background for my question is, if you look at emerging technologies or innovations, often picking the right business model isn't the driver of success. Actually if you look backwards you can figure out which one out of 100 was successful, but not really understood why when you look forward. So, many times it's just a matter of actually making a lot of bets. Do you have a venture capital arm to try to capitalize on making a lot small bets and hopefully having one of those pay off?

Andy Bird – *President, Walt Disney International*

We do have a capital venture arm as a company and that is set up with the sole objective of looking at some of the areas described. More recently that venture capital arm started to focus on the Asian market and, without going into any great detail, they are pretty active in examining a number of opportunities in that space in that part of the world.

Audience Member

For some international companies broadband penetration is actually higher than it is in the US, so I was wondering if you could share with us what lessons you've learned in terms of how broadband changes consumers' consumption of media? And maybe compare and contrast that with how the US is developing too? Thank you.

Andy Bird – *President, Walt Disney International*

Rajat, do you want to talk about broadband in India?

Rajat Jain – *Managing Director, The Walt Disney Company, India*

Broadband in India actually is pretty small at this point in time. It's about 2 or 3 million homes, I think.

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

I think I can give an example.

Andy Bird – *President, Walt Disney International*

Okay.

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

Broadband is a word that varies, but as defined by the government, China has around 93 million broadband connections. We notice that, broadband and especially the interactive sort of entertainment experience is becoming fast growing and becoming increasingly important. If you notice the gaming market, the massively multiplayer games, there's one prime example, which I just highlighted minutes ago, that's we're going to participate in.

We're going to co-produce with Shanda, one of the local leading interactive media companies, a massively multiplayer game called *Mickey Hoverboarding*, which is going to come out in a few months. We also notice that the key demographic which is between 18 to 45 -- actually spends more time with broadband interactive media versus the traditional TV.

So we look at this medium as very important to us, and that's why we talked about -- rebranding our Disney.com at the beginning of last year. We can continuously improve it in 2007 in order to really increase our appeal to the consumer and make ourselves the new media, broadband, Internet entertainment spot in China.

Andy Bird – *President, Walt Disney International*

I should add, one of the criteria for adding Korea into our emerging market groupings was because Korea is such a developed marketplace in terms of mobile digital television. You saw an example in Anne's presentation earlier with TU Media in terms of us providing television content to the digital mobile handset market in Korea.

We felt that we as a company were under-serving that market and we wanted to have a real focus on taking advantage of the market dynamics in Korea and then take a lot of those learnings that we can find from that marketplace and transfer them to other parts of the world as either broadband or mobile or other new technologies come up.

Audience Member

Thank you, two questions for Stanley, please. First, what impact has the opening of Hong Kong Disneyland had on your business, the Disney Consumer Product business, your market share, mobile content, etc.? And secondly with respect to piracy, I believe Warner dramatically dropped their home video pricing over in China, really lowered the retail price to combat piracy, have you done the same? And has that strategy been effective?

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

For Hong Kong Disneyland, it's having a very positive impact in terms of building the brand awareness, letting the people who have visited the park last year, over 5 million, understand the brand a lot more. So I would say overall Hong Kong Disneyland's impact on China is a very positive one. Now, we all know that Hong Kong's Disneyland performance is less than expected, both in terms of attendance and the average spending. I think as Hong Kong Disneyland continues to improve, we will see a bigger and bigger impact in that part of the business.

In terms of the piracy, Warner, there are two parts of it.

They decreased the price of the DVD, but actually all studios have done that. Warner also took additional steps I think around two months ago to test a sort of stripped down product in terms of packaging at an even lower price.

We're monitoring that very carefully. I would say we would take a slightly different approach than just looking at the price and looking at DVDs as an individual business. One of the luxuries of The Walt Disney Company, is that we have different platforms and we have favorite stories and characters, different properties that we can leverage.

So we will look at the results very carefully and see what's happening, but we will probably take a slightly different approach that can actually help us to create a more synergized approach beyond just pricing and beyond just DVD.

Andy Bird – *President, Walt Disney International*

You should maybe give a little example of the test we did in Wuhan.

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

Yes, we did a test in Wuhan in '06. We ran a retail promotion in that city, in which we have key accounts. Our Disney corners engaged in a promotion over six weeks. During that time we did a tie-in with a free offering of our DVD - a Mickey title and a Pooh title. We scored a substantial jump both in merchandise sales, as well as our character favorites among kids and adults.

So that was a small test that we have done in Wuhan where we only leveraged consumer products and DVD at that time. We looked at that as a great encouragement that we were actually creating programs that we could leverage to promote and get our story out to the consumer.

Andy Bird – *President, Walt Disney International*

In short, we don't believe that price alone is the way to combat piracy. Bob Chapek, who runs our home video business, and his team were in China last week and they found that the pirates' price of the DVDs were listed in the stores as a buck a DVD, yet when you went to pay, the retailer automatically discounted it down to $0.80.

So once you start getting into that sort of level, if you have a strategy that is solely around the price points of your product, you're on pretty flimsy ground.

Audience Member

You mentioned earlier the paradigm shift within the company to focus more on locally produced content as opposed to exporting everything. I don't know what the exact numbers are, but roughly 45% of the company's profits come from ESPN. So my question is really an organizational one in terms of expanding the ESPN concept internationally, is that outside the purview of what each of the Managing Directors in their respective countries have? In other words, is that opportunity centralized? Or does that rest with you all?

Andy Bird – *President, Walt Disney International*

Perhaps I can answer that. George touched on the ESPN internationals business earlier. That is run by a very, very capable executive called Russell Wolff, and in a way he has my exact role over at ESPN. He is totally responsible for growing the ESPN brand internationally.

He and his team interface on a local level, obviously the ESPN staff, sports in China and in India where ESS is such a powerhouse, means that there's very, very close collaboration between the two units. In Latin America we've actually combined the ad sales and the distribution sales of the Disney channels and the ESPN channels together very, very effectively.

Audience Member

Obviously the movie exhibition industry in this country, in terms of number of screens, is a mature business, but it's a huge growth business abroad, particularly in China and India. I'm wondering from you two gentlemen on the right, what kind of dynamics are at work currently with regard to the growth rate of movie screens in either country? Is there a lot of governmental red tape involved with regard to expansion of units? And what kind of growth rates can we expect in the future? Thanks.

Andy Bird – *President, Walt Disney International*

Who wants to take it first, Stanley?

Stanley Cheung – *Managing Director for The Walt Disney Company, China*

The box office in China is mainly driven by the increasing number of screens. I don't have the exact number with me, but it's probably in excess of 50% in terms of box office increases in the last couple of years, and it continues to increase.

In terms of the media and entertainment segment we're very, very positive in terms box office growth. In terms of our share of the box office, currently it's limited by the 20 foreign imported film order that is imposed on the foreign films.

But what we look at is the quality of our theater system and worldwide strategy getting better and better per screen, in terms of box office growth. Also important is our growing participation in local content–which doesn't restrict us to the 20 movies.

Andy Bird – *President, Walt Disney International*

Rajat?

Rajat Jain – *Managing Director, The Walt Disney Company, India*

Yes, this is the one area that is seeing a tremendous amount of growth as far as the distribution infrastructure of movies is concerned. As you rightly said, there are about 12,000 theaters in India. Most recently there are about 800 or 900 multiplexes coming up, which are five or six screen, completely top-end multiplexes. These are driving the Hollywood movie business in India and taking up the ticket prices, which used to be a dollar two years ago and which are now as high as $4, $5, $6, where you can enjoy a movie in a completely international environment.

So I think that is really on the rise and it's helping us. For example, *Pirates of the Caribbean* was the biggest box office Hollywood movie in India, and one of the reasons is that explosion of the distribution infrastructure, as well as the increasing consumer spending on actually seeing a movie now.

Andy Bird – *President, Walt Disney International*

And finally, Marina, you should touch maybe a little on the Russian movie market first, because it is already a top-ten market for our international film business.

Marina Jigalova-Ozkan – *Managing Director, The Walt Disney Company, Russia*

In Russia the number of screens is growing really rapidly and multiplexes are growing and being built all over Russia in the cities. *Pirates* last year was the number foreign movie ever in Russia, so it was a huge success. So overall, the box office is growing and the price of a ticket is growing a bit, not only in Moscow but in the regional cities as well.

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

Welcome back. Hope you enjoyed lunch. For those of you who had some of the gelato, I can't explain those portions, either. It's the smallest thing I ever saw, actually. And if it's a sign people are really trying to watch costs, then I guess I should feel good about that. So we're going to begin this afternoon by talking about what has been the creative center for Disney since its founding more than 80 years ago.

Under Dick Cook's leadership, the Walt Disney Studios had its most successful creative year in its history last year. And this creative success also drove the record-setting profits we just reported for the segment in Q1. And in the midst of all this, the studio actually took a hard look at itself and restructured to be more efficient, so we have to commend them for that. We're focusing the vast majority of our creative efforts and investment on Disney-branded movies going forward, as Bob talked to you about this morning and you've heard throughout the day.

And, of course, this past year we completed the acquisition of Pixar, which has brought creative talent and energy to Disney that has exceeded our already high expectations. This overall approach is designed to increase the number of film properties we can leverage across the company and extend the life of the franchises we create, while also maximizing our return on investment in this business.

Now, Dick Cook wanted to join us today but wasn't able to, because of a prior and immutable commitment, but he sends his regards and his regrets for not being here. I'm pleased to say that in a few minutes you will hear from John Lasseter and Ed Catmull, longtime creative partners and co-founders of Pixar Animation. They're going to provide you an update on the integration and a glimpse of the creative process that they have established at Pixar, that they are installing at Disney Feature Animation.

You'll also hear from another one of our talented studio executives, Oren Aviv, who oversees all of our Disney and Touchstone live action films. But, first, you'll hear from Alan Bergman, who is the President of The Walt Disney Studios. Alan has been Dick's key business partner and right hand for the past five years, first as CFO of the studio and now as studio president. And in those roles, he's played a vital role in both the creation and the execution of our studio strategy.

So we want to give you a little bit of a glimpse of some of the products from the great year last year and what's coming up, and then Alan will take you through the studio. Thanks very much.

[VIDEO PLAYS]

Alan Bergman – *President, The Walt Disney Studios*

That tape sums up why we're so excited at The Walt Disney Studios, and I must say the timing of this meeting couldn't be any better. Just two weeks ago, we received 20 Academy Award nominations - the most of any studio. But, more importantly, as Tom mentioned yesterday in his earnings call, the studio just completed its best quarter ever, generating more than $600 million in operating income.

This was primarily due to the DVD releases of *Pirates of the Caribbean: Dead Man's Chest*, *Cars* and *The Little Mermaid*, which together sold over 50 million units worldwide in the quarter. Q1 was a continuation of our enormously successful 2006, during which we racked up the highest income and margins in almost a decade.

2006 was definitely a year to remember. *Pirates* was the top-grossing film, and became only the third movie in history to make over $1 billion at the worldwide box office. We had the top three selling DVDs, *Pirates*, *Cars* and *Narnia*, the number one album of the year, *High School Musical*, and the number one musical, *The Lion King*. The reason I list these accomplishments is not to brag -- well, maybe a little, but to point out they all have one thing in common, great Disney-branded creativity.

For us as a studio, our number one objective is to produce outstanding creative material. It all starts there. If our product isn't well received, everything else is just rounding. So in order to create the best product, you need the best creative talent, and we believe we've assembled just that. During this past year, we acquired Pixar and with it came the best animation team in the industry, which is led by John Lasseter. We're also fortunate to have the number one producer in Hollywood, Jerry

Bruckheimer, and we just brought on one of the most successful directors in history, Bob Zemeckis. Between them, they have accounted for approximately $15 billion in worldwide box office and are responsible for some of the most popular and enduring films ever created.

We also believe we have put together one of the strongest creative organizations in Hollywood with Oren Aviv overseeing live action films, and John Lasseter and Ed Catmull guiding our animation business.

In addition to having the right talent, you have to focus on the right material, and that's exactly what we're doing, focusing on Disney-branded products. As we announced last year, we're going to be making fewer films, but the vast majority of them will carry the Disney name. We're committed to making outstanding films that the entire family can enjoy and, quite frankly, that's what we do best.

Over the last five years, Disney films have delivered strong, double-digit returns on invested capital while driving business throughout the company. From home entertainment to toys to apparel to publishing to video games to the Internet to our theme parks, a successful Disney film lifts the entire company.

This is possible because Disney is the only studio label that has real meaning in the marketplace. It stands for great family entertainment, which gives us an enormous competitive advantage. Just consider *The Little Mermaid*, which sold a remarkable 9 million DVDs in the first quarter, even though the film is 17 years old. As you can see, great Disney films stand the test of time. Additionally, Disney films convert box office to DVD sales at a consistently higher ratio than the industry average, which significantly improves our economics. Making the vast majority of our releases Disney films, we believe we can capitalize on these competitive advantages.

The benefit of the Disney brand is compounded by its inherent ability to foster franchises. One way of looking at it is that Disney itself is the ultimate franchise, a family brand that keeps people coming back for more. Over the next several years, we will be releasing a number of Disney franchise films, including the next installments of *Pirates*, *The Chronicles of Narnia* and *National Treasure*, as well as animation sequels.

And speaking of animation, we believe Pixar has become a dependable franchise all on its own. Just as people went to see *Pirates II* because they loved the first *Pirates* film, we believe they will go to this summer's *Ratatouille* because they love *Cars* and all of the other amazing Pixar films, each of which enjoys the popularity to form its own long-term franchise. And now, of course, Pixar is 100% part of The Walt Disney Company.

This acquisition has exceeded our high expectations and there is little question that Disney is back to being the number one animation studio. With this in mind, you can see why we're so excited about 2007, as we have the same two summer franchise drivers that we had in 2006, *Pirates* and Pixar.

Another big advantage of our Disney franchises is that they tend to over perform internationally. Last year, our international box office for both *Pirates* and *Narnia* was more than 150% domestic box office. Therefore, developing strong Disney-branded franchises is a major element of another one of our strategic objectives, to grow our business internationally.

Currently, our international business represents 40% of our total revenues and our goal is to grow this to close to 50%. We anticipate this growth will not only be driven by our franchise films, but also by the overall expanding film and DVD business in emerging markets. For example, last year, *Pirates* became the biggest U.S. film in Russian history, generating almost $30 million at the box office, which, by the way, is an even more impressive 797 million rubles. In 2006, total Russian box office was up a remarkable 30%. We expect this strong expansion to continue in Russia and in other emerging markets.

We believe that future international and domestic growth will also be derived from technological innovations, which we're applying to both production and distribution.

With regard to production, technology has allowed us to deliver dazzling new entertainment experiences that excite audiences around the world. Certainly, part of the appeal of *Narnia*, the *Pirates* films and all the Pixar releases has been the cutting-edge imagery that has helped tell their stories. We expect to stay the leader in this field, driven in part by our key talent, Ed Catmull, John Lasseter, Jerry Bruckheimer and Bob Zemeckis. These individuals are technology pioneers and we intend to take full advantage of their insights and expertise.

Just consider the newest member of this group, Bob Zemeckis, who is leading the way in performance capture. This technique gives us endless possibilities in the filmmaking process and all of his films will be shot and shown in 3D. Technology is not only making it possible to create exciting new movies, it's also making it possible to create exciting new markets. For example, electronic distribution is just beginning to provide a great new way for us to reach our audiences. We've done a number of deals in this area and clearly the most encouraging is with iTunes. In fact, in just the first five months of the deal, we've sold 1.5 million films on iTunes.

With regard to theatrical distribution, Disney was one of the first studios to exhibit films digitally, and now virtually all of our films are distributed in the digital format. We're encouraged by the steady growth in the number of digitally equipped theaters, which make it possible for audiences to see pristine images on the screen, whether it's opening night or at the end of a film's run. And we believe that in the long run this technology will lower our overall distribution costs.

Another promising development is Blu-ray, which brings high-definition movies to the home. Currently, 30% of households have high-def sets and as penetration grows, we believe this new format can drive increased value for new releases and for the Disney library. Digital technology is also providing effective new tools to market our products, particularly through the Internet, which increasingly makes it possible for us to connect directly with our consumers.

The common element in our technology initiatives is that they represent wonderful new ways for our entertainment to reach audiences around the world. And part of that entertainment goes beyond the Disney brand. We will still be producing a limited number of Touchstone films when the material is appropriate. Meanwhile, Miramax continues to be a strong brand in its own right in a specialty film market.

In fact, I'm proud to say that in just its first year of operations, under new management led by Daniel Battsek, Miramax has received a number of prestigious awards, most recently seven Academy Award nominations, including Best Picture for *The Queen*, Best Actress for Helen Mirren and Best Actor for Peter O'Toole.

There are two other businesses that are part of the studio I'd like to discuss, stage plays and music. These businesses provide us a degree of diversification that complements our film operations. Disney Theatrical Productions, our stage play business, has become a thriving enterprise, with margins consistently above 20%, and it currently has a remarkable four shows on Broadway, all of which are Disney branded.

The Lion King alone has generated more than $2.8 billion in worldwide box office sales to date and shows no sign of slowing down. There are currently seven productions of *The Lion King* playing in five countries. Last year, we had a successful run in Shanghai, which helped further the awareness of Disney in the world's most populous nation. And soon the show will open in South Africa. Plus, there's more in the pipeline, as *The Little Mermaid* will open on Broadway in December.

The other business I want to mention is our music group. It had an exceptional year in 2006, with the number one and number two albums of the year, *High School Musical* and *Me and My Gang* by Rascal Flatts. The Disney Music Group offers a full range of music, but it's anchored by the dependable performance of Walt Disney Records, which in addition to the Disney Channel's *High School Musical* had big hits with *Hannah Montana* and the *Cheetah Girls*.

Our music group is now well positioned with a strong artist roster that will continue to pay off in the years ahead. In managing all of our businesses, we are continuing to emphasize cost efficiency at every level. In fact, despite our strong success last year, we implemented an efficiency program that resulted in reductions of 650 positions, yielding projected annual savings of $100 million. Part of this reduction involved the consolidation of domestic and international distribution for both our theatrical and home entertainment divisions.

In addition to being more cost effective, this recognizes the increasingly integrated nature of the worldwide marketplace. During the year, we also introduced other cost-savings initiatives, including the renegotiation of key vendor contracts that are generating similar savings. And let me assure you that last year's cost-reduction effort was not a one-time event. We will keep looking for ways to improve our efficiency and keep our operations among the leanest in the industry.

But the ultimate success of all of our businesses depends on the number one ingredient I spoke of earlier, creativity. Great creativity from a great creative team makes it possible to strengthen the Disney brand, build franchises, grow internationally, leverage technology and diversify our operations. The challenge, then, is to foster creativity in a way that keeps the pipeline full of quality products that can be optimized throughout the studio and across the company.

With that in mind, I'd like to invite up the President of Production for Walt Disney Motion Picture Group, Oren Aviv, who will be followed by John Lasseter and Ed Catmull.

Oren Aviv – *President, Production, Walt Disney Pictures Group*

Good afternoon. As Alan mentioned, we have a very clear Disney-driven strategy for the studio. We're slimming down our annual slate to better focus on telling the best stories with the most talented filmmakers and making high-quality films that will cross all demographic boundaries. As proven by the global success of *Pirates of the Caribbean*, *The Chronicles of Narnia* and *National Treasure*, Disney-branded films can work for each member of the family, regardless of age.

Historically, these broad-appeal movies have proven to be some of the most successful ever made. In fact, when you look at a chart of the top 100 grossing films of all time, 80 of them, with a slight tweak here and there, could have been Disney-branded movies just by following three simple guidelines.

Number one, our movies will always have dialogue that's appropriate for all ages. There will never be adult language in a Disney film. Number two, lots of action is fantastic, but there will never be any gratuitous violence. And, number three, romance is great, but there will never be any sexuality.

The ideal example of our new strategy is *Pirates of the Caribbean*. Jack Sparrow's third adventure is less than four months away, but it's already one of the most highly anticipated films of the year.

Here's an early look at *Pirates of the Caribbean: At World's End*.

[VIDEO PLAYS]

At World's End sails into theaters this Memorial Day.

As with *Pirates of the Caribbean*, *National Treasure* was another breakthrough for the studio that helped expand the notion of what a Disney film could be. In the sequel, *National Treasure: Book of Secrets*, we've reunited the cast and crew and are sending them to iconic locations around the world to explore even more secrets behind the origins of our nation. Here's a first look.

[VIDEO PLAYS]

Two years ago, *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe* became the most successful live action Disney film ever, surpassed only by *Pirates II* last year. And Director Andrew Adamson is back once again to tell the incredible story of *Prince Caspian*, the second of seven potential *Narnia* movies based on the classic C.S. Lewis books, for which we have all the film rights in partnership with Walden Media.

Shooting begins later this month, but I brought with me today a very rough first look at *The Chronicles of Narnia, Prince Caspian*.

[VIDEO PLAYS]

Prince Caspian will be in theaters May 16th, 2008. Another project that we're very excited about is *Jungle Cruise*, where we'll be turning another one of our well-known, pedigreed, park attractions into an epic, exciting, groundbreaking family movie. We've got the writers of *Spiderman 2* currently working on the script and it will be a star-driven action-adventure centered around our fun-loving con man of a riverboat captain. Think *Pirates of the Caribbean* meets *Indiana Jones*.

Jungle Cruise is a great example of our commitment to building franchises for the studio and for the company. And, like *Pirates*, it represents another advantage of the Disney brand in as much as we already own all of the underlying rights for this very popular entertainment property.

Another potential franchise is called *Prince of Persia*, produced by Jerry Bruckheimer. Based on one of the longest-running and most successful video game series of all times, *Prince of Persia, The Sands of Time*, will become an epic, sprawling adventure from Walt Disney Pictures. This artwork represents the spectacular look that we're going for in the film.

We put together a rough trailer using footage from the *Prince of Persia* game to give you an idea of the tone, scale and story of the movie. The film, of course, will be live action.

[VIDEO PLAYS]

Every once in a while, a movie comes along that incorporates everything our company embodies and does best. *Enchanted* is one of those films. This comedy has extremely broad appeal, since it possesses all the qualities of a classic Disney fairytale, while also playing to a more adult sensibility.

It tells the story of a Disney animated character who finds herself in the very real world of New York City. Coming for the holiday season, *Enchanted* stars Academy Award-nominated Amy Adams as our newest princess, Giselle, and features five brand-new songs from Alan Menken, winner of eight Academy Awards for his work on classic films like *Aladdin*, *Beauty and the Beast* and *The Little Mermaid*. Here's an early look at *Enchanted*.

[VIDEO PLAYS]

As you can see, *Enchanted* goes straight for the heart of the Disney sweet spot. It will be in theaters this Thanksgiving.

While our core businesses is Disney films, we're going to make Touchstone films when a winning script comes along that is truly unique, has great characters and has broad appeal.

Wild Hogs is exactly that kind of film. It's a comedy about four frustrated suburbanites who try to rev up their middle-aged lives by hitting the open road as would-be renegade bikers. Let's take a look at the trailer.

[VIDEO PLAYS]

I'm sure you can see why I'm very excited about our upcoming slate, but before I go, I'd like to end my portion of the presentation by debuting for you a never-before-seen rough trailer for the film that is truly in a league of its own, *Pirates of the Caribbean: At World's End*, which opens on May 25th. A final, finished trailer will have an unprecedented global launch next month.

[VIDEO PLAYS]

Now I'm thrilled to introduce the two creative visionaries behind Pixar Animation Studios, and now, Disney Animation, Ed Catmull and John Lasseter.

John Lasseter – *Chief Creative Officer, Pixar and Disney Animation Studios / Principal Creative Advisor, WDI*

Thank you. That's not hard to follow! We want to just say first off how proud we are to be a part of the Disney family. I always bring Ed up for comedy relief, especially when I get all sobby like this. We're very excited. See, I've loved Disney all my life. When I was a kid, all I ever wanted to do was animation. My mother was a high school art teacher. My parents couldn't get me out of bed to go to school. I was so lazy in the morning. But come Saturday morning to watch cartoons, I was up at the crack of dawn.

And ever since I knew that you could actually make a living, actually make money doing cartoons, I was like, that's what I want to do. And my mother, I was blessed by her support, and she said that's a great thing to do. I was taught by the great Disney artists at California Studio Arts. I was on a Disney scholarship and I even worked as a ride operator on the Jungle Cruise. That's going to be a great movie, Oren. Because you get to see the back side of water, and all those great jokes.

And I just have -- I love everything Disney and I was so excited when these two companies came together, because all I've ever wanted to do was animation, and I think that what's great about Pixar is that it has always been the only animation studio. It's been led by people who all they've ever wanted to do was animation, now with Disney animation, as well. And Ed, you wanted to be an animator, too, right?

Ed Catmull – *President of Pixar and Disney Animation Studios*

Yes, when I grew up, I wanted to be an animator. I followed everything Disney, and when I got ready to graduate from high school, I was pretty good as an artist, but I compared where I was with what was coming out of Disney Studios, and I couldn't see how to get from where I was to there, so I switched over into physics.

So when I went to graduate school, this was right at the early days of computer graphics, and at that time I believed -- actually, when I first saw it, I realized it, that this is something amazing, and that this is the opportunity to use computer graphics to help make the pictures.

So I started down this path of developing the technology to be used in films. So that took about 20 years, and then during this period of time there was a team that came together from various places, all interested in solving this particular problem, until finally in '95 *Toy Story* came out. And then there was a succession of films after that, just demonstrating we really could do it, learning all along how to do things.

It wasn't just about the technology. In fact, we realized fairly early on that if we thought of it as a technical problem, we were doing the wrong thing and that really the story had to lead everything, until finally, leading up to this point a year ago where the studios came together and Pixar was acquired.

So this was -- it's been a whirlwind year, and now that we're into it a year, of course, a lot of people would like to know how is it going?

John Lasseter – *Chief Creative Officer, Pixar and Disney Animation Studios / Principal Creative Advisor, WDI*

How is it going?

Ed Catmull – *President of Pixar and Disney Animation Studios*

Well, I'd have to say at Pixar, it's still Pixar. That is, nobody left. We're not under contract. Everybody is there because they want to be there, and they're just working on great and incredible films. At Disney, we have these remarkable artists who were there, but I have to say, in all candor, these remarkable artists were not kneaded together in the right way.

You couldn't say that the whole was greater than the sum of the parts, but there were some incredible parts there. So, as an organizational principle that we have as we tried to get them to the level where they're capable of being, and that is that even though it takes 200 to 300 people to make a film and a lot of organizational support behind that, at the heart, there's got to be a director, and that director has to have a unique vision. And that's very important to us.

It's very important that each film be different, and the way to have it be different is that you have different visions from different people. Around that director, we believe there's got to be a strong story group that supports them, people that give them notes and above all are very honest about what works or doesn't work. And then around that, we have artistic, technical and production people who feel ownership in the film. They feel pride in it. And they want it to be the best as possible.

Our job is to make sure that every one of those pieces is healthy and that they're functioning well together and that there's great balance. We are not merging the two animation studios together, which I think surprises some people. But this goes hand in hand with our saying that we want there to be local ownership. We want each group to feel pride in what they're doing and not feel that they're just cogs in a larger wheel, so we are keeping them separate.

There is some sharing, though. We do share technology between the studios and, and very importantly, the creative leadership gives candid and honest notes to each other. This is a very important part of the process. But there will be a difference.

We are not trying to say that one is 2D and one is 3D. That would be trying to impose a technology on the studios, -- and still living true to our principle that at heart we have to follow what the director wants to do. So at Disney we will be making 3D films, but, in addition, we will be bringing back hand-drawn 2D films. And we're actually going to talk about this in the future, but I'm really excited about that and we brought back some great directors to work on this.

At Pixar, we have some phenomenal technology that we're working on. We've got a group, a fairly significant group, that's rewriting the software that will change the way we've done everything. It accumulates the experience that we've had from everything that we've done and we're just rewriting the entire base and of course it will be shared with Disney when it's ready.

So there are exciting things at both places, a lot of great projects. In fact, John should now talk about some of the projects that are coming up.

John Lasseter – *Chief Creative Officer, Pixar and Disney Animation Studios / Principal Creative Advisor, WDI*

One of the things that is so special about Pixar and why our films -- *Cars* has been our seventh motion picture—is the culture at Pixar. When you walk into that building, you feel it. It is all about the movies. It's all about making the best movies possible.

We've always believed that quality is the best business plan, period. And so we are bringing that to the Disney studios, that same culture. And in the last year, it's amazing the difference there. The artists are so excited, and it's going to be shown in the films.

The day after the announcement of the merging of the two studios, Ed and I walked into the Disney Animation Studios, and there we got to meet all of the artists. And each of the directors took us through all the films, and the one director, the young guy named Steve Anderson, was directing this movie called *Meet the Robinsons*, which is the next motion picture that's coming out from Disney Animation Studios. And he talked about this story, which is about a boy who is given up for adoption and he always wondered why. Why did his mom give him up?

And, as he told this story, Steve mentioned, "I'm adopted." And his personal story touched me so deeply that when I finally saw the film, which, by the way, I have to say, it was about 80% finished when Ed and I walked into that studio. I looked at it and it was like the film didn't have in it what Steve's personal story had.

His personal story brought me to tears, right, and I thought, ah, this feels like it's had too many cooks trying to stir this soup. So we gave him a lot of notes, some really strong notes. We were very honest with him about the movie, but then I gave it back to him. I said, Steve, make the movie you want to make. Tell your story.

And he came back with changes to this film, minor changes, but it made all the difference in the world, and this story about Lewis, the main character Lewis, who is focusing on the past and he's wondering, why did his mom give me up? And he wants to focus on his past, but this focus actually takes him to the future, where he meets this amazing, crazy, wonderful, appealing group of characters that actually turns out to be his future family.

And he learns through this experience to look forward in life, not to look back. And this story, it's Steve's story. It's the definition of a director-driven studio. When something that touches and moves a director can be up to the screen so the whole audience can feel it, that's why Pixar films have been successful and that's why we're so proud of this movie.

We want to show you now the theatrical trailer for *Meet the Robinsons*.

[VIDEO PLAYS]

We're really excited about this. I'm very, very proud of the film and what Steve and his crew have done. The film is really beautiful, too. They have a stylization in this film that is really striking. And I wanted to show you, besides just the trailer, I wanted to actually show you a little piece of the film, so you could see what I'm talking about, just see how beautiful this is. This is about a two-minute clip out of the finished film, and it takes place when Lewis has created an invention so he can try to remember what his mother looked like the day that she gave him away.

He's been focused on the past, and this strange kid, Wilbur, comes up and after the invention fails through sabotage, he begs Lewis to fix the machine and Lewis has completely given up. Because he says that he's from the future and Lewis absolutely doesn't believe this crazy kid, Wilbur. And that's where we start the clip.

[VIDEO PLAYS]

So the music is done by Danny Elfman, too, and it's a beautiful piece of music. I think it's one of his best scores he's done in a long time. So we're very, very proud of *Meet the Robinsons*, Steve Anderson and his crew, his film.

The next movie coming from Pixar Animation Studios is *Ratatouille*. *Ratatouille* is being written and directed by Brad Bird, the director and writer of *The Incredibles*. And this movie is about a rat. His name is Remy, who loves food, loves good food, not garbage, but good food. And, in fact, he is so interested in food he becomes quite enamored with cooking. A rat wanting to cook? In fact, he has an exceptional talent at it, but his dream is to cook in the finest restaurant in Paris, France. A rat cooking in a restaurant in Paris, France.

Now, you have to understand this, because a rat to a kitchen is death to the kitchen. They'll close it up in a second. A kitchen to a rat is death to the rat. They'd kill it instantly, right?

The story is about following one's passion against all odds, and I'll tell you what odds, but he finds an accomplice in Linguini, this very untalented dishwasher and he becomes the best chef in Paris. In every Pixar film, it's always about the story. We pride ourselves in taking the subject matter of films, which lends itself to our medium of computer animation, which we love so much.

But, also, every movie has something the story requires that the technology we have we don't know how to do. Now, when you look at this image of Remy the Rat, there's something that computer animation has never been able to do that hand-drawn animation from the beginning has always done beautifully. It's called squash and stretch.

It's one of the principles of animation that the great Disney animators kind of developed at the Disney studios. But computer animation likes to make things that are basically rigid. We set out, after studying rats and mice, the way that they move and can curl up into a little ball and stretch out, I realized we have got to master true squash and stretch in the film. It was a lot of work, but we did it.

And when you see the clip we'll show you at the end of the presentation, you'll see what I mean, how incredibly natural and funny and beautiful and charming the motion of these rat characters are. It's really great.

The one thing, however, we did not anticipate being difficult was making food look delicious. It always looked like plastic. When you go to Tokyo and you see all the sort of menus, they just have the plastic fruit out front. That's what the stuff started looking like, and we started studying food, and the research was really tough, right? Going to the finest restaurants in the United States and Paris, France, to study the way the food looked. Of course, we had to taste it, too, and of course pair it with wine. I do live in wine country, so it's part of the thing.

But the artists at Pixar did the most amazing transformation of our shader technology to achieve the translucency, the transparency, all of the things that make what the light does with these foods that tells your tummy, the food's good. Now, I promise you this, this movie will make you really hungry.

So, at the end of our presentation, I'll show you a nice beefy, or fishy if you like fish, clip from the movie, a 12-minute clip, and we're very, very excited about this film.

After *Ratatouille*, the next movie coming out from Pixar Animation Studios is being written and directed by Andrew Stanton, who created *Finding Nemo*. He is taking his wetsuit off and putting his spacesuit on and taking you into outer space for *WALL-E*.

WALL-E is the story about the last little robot on Earth. He is a robot that his programming was to help clean up. You see, it's set way in the future. Through consumerism, rampant, unchecked consumerism, the Earth was covered with trash. And to clean up, everyone had to leave Earth and set in place millions of these little robots that went around to clean up the trash and make Earth habitable again.

Well, the cleanup program failed with the exception of this one little robot and he's left on Earth doing his duty all alone. But it's not a story about science fiction. It's a love story, because, you see, *WALL-E* falls in love with [Eve], a robot from a probe that comes down to check on Earth, and she's left there to check on and see how things are going and he absolutely falls in love with her.

And he follows her back up to her main spaceship, and you see a vision of the space and the future in this movie like you've never seen before. It is really spectacular. But with all Pixar films, one of the things we pride ourselves in, not only a great story, but the characters, memorable, appealing characters and these little robot characters that help *WALL-E* and Eve, these rejected, defective little robots, are the most charming group of characters we have ever created.

And so, in the end, always about Pixar films, it's about the heart of the story. And this story is one of the most special things. Again, if you liked *Finding Nemo*, you're going to love this movie, because Andrew Stanton is one of the most talented filmmakers working today. It's just great.

The next movie coming out after *Meet the Robinsons*, from Walt Disney Animation Studios, is *American Dog*. *American Dog* is being directed by Chris Williams, a very talented young filmmaker at Disney. And this film is about a dog named Bolt. Bolt is owned by a little girl whose father is this incredible scientist.

Now, to protect the little girl, he gives the dog superpowers, but the dad is kidnapped by these bad guys, and the little girl and the dog -- and the dog is protecting her by fighting off the bad guys with his superpowers, and for 10 years they search for the father and battle the bad guys.

But all this is actually a TV show. You see, Bolt is a star of the most popular television show and it's been running for 10 seasons, but he thinks this is real. He lives on the soundstage and that's all he knows, so all of this is real to him. In one unfortunate incident, he falls into a box and he's shipped from his home on the soundstage to New York City and he comes out of it and he thinks it's all part of his life, where he has superpowers. But he is in the real world and nothing works like he thinks.

It's crazy, and he's trying to figure out what the heck is going on with the help of this crazy alley cat and this super fan hamster who is always in his hamster ball. He's trying to figure out what's going on and then he realizes that he is just an actor on a TV show, that his entire life, 10 years of his short life, has been spent being a fake, that he is not really what he thinks he is. It crushes him, but, really, he learns what it is to be a true dog. And it's a very heartwarming story.

And one of the things, we've done a lot of research and development for this film, because computer animation always likes to make things look clean and perfect. Ed and I have been working our entire careers in computer animation trying to manhandle this computer and this technology to make things look organic, to look lived in, to have a sense of history that our natural world has, so it doesn't look perfect and clean.

But the one thing that we've never been able to do is to achieve the beauty and the softness that you see in the painted backgrounds of classic Disney animated film. We wondered why. We set out to do some research at Disney to figure out if can we take that look, that beautiful look of those hand-painted backgrounds and see if we could do it in computer animation. And we have solved it. We have this beautiful -- I want to show you two tests now, and please roll the tests.

These are two tests that show you the technology that we're going to be using for the background. These are just test pieces with no characters in it, but it gives you the idea of how beautiful this imagery is going to be. There's a softness to this, a look that no one's ever seen before. So this is the look that we're going to use in *American Dog* and we're really, really excited about this. And Chris Williams is a very talented filmmaker.

So this will be rolled out and those are the next movies coming out from the two studios, from Pixar Animation Studios and Disney Animation Studios.

Ed Catmull – *President of Pixar and Disney Animation Studios*

I think you forgot one.

John Lasseter – *Chief Creative Officer, Pixar and Disney Animation Studios / Principal Creative Advisor, WDI*

I forgot one? Wait a minute. Which one did I forget? Oh, how could I forget Buzz and Woody. Buzz Lightyear and Woody, ladies and gentlemen, stars of *Toy Story*. Hi, Buzz, hi, Woody. Well, ladies and gentlemen, we're proud to announce that we are in production on *Toy Story 3*. We are very excited about it. Are you guys excited?

Yes, look at there. The smiles on their faces tell the story, because I'm excited. This is a movie that I have wanted to make since 1999, and I think for me personally it's the greatest thing about the merger of our two companies, that the creators of the original *Toy Story* and *Toy Story 2*, we can make *Toy Story 3* with the story that we wanted.

When we came up with the idea for *Toy Story*, the five of us, myself, Andrew Stanton, Pete Docter, Joe Ranft and Leon Rich, we went off to this small house on [inaudible] Bay on the coast of northern California and we worked out the story over a weekend, created the story of *Toy Story* and the story of Buzz and Woody. And so to start the development of *Toy Story 3*, we went back to that very same house with the same group of people and we worked out the story of *Toy Story 3*.

Andrew Stanton wrote the first treatment based on those ideas and it's going to be directed by Leon Rich, one of the creators of the original *Toy Story* and *Toy Story 2*, directed by Darla Anderson, who produced -- sorry, produced by Darla Anderson, who produced *A Bug's Life*, *Monsters, Incorporated* and *Cars*. And the screenplay is going to be written by Michael Arndt, who is an Oscar-nominated screenwriter for *Little Miss Sunshine*.

And it's a fantastic creative group and we're so excited about this. Are you guys excited to do the work again? Thank you, you guys, for coming here and reminding me of something I stupidly forgot. Isn't it amazing that they just happened to be here?

Ladies and gentlemen, Buzz Lightyear and Woody. So we want to now show you -- everybody's watching them go. I told him just fly, just fly on out of here, and he said no, the jet blast will hurt all the analysts, and I said, okay, Buzz, I trust you. So now I want to show you a 12-minute clip.

The movie is still a work in progress, but we want to show you this clip from *Ratatouille*. To set up the story to where the clip comes in, Remy has found his way, as I said, who loves cooking, and he's a lover of everything from the Chef Gusteau, who has the number one restaurant in Paris, France. And Gusteau has died, but appears to Remy as a figment of his imagination. And so we find Remy has made it to Paris and he is on top of the roof of Gusteau's restaurant, looking through a skylight into the kitchen of Gusteau's, and he is so excited to finally be there, so that's where we pick up the story.

[VIDEO PLAYS]

Bob came over to encourage me to announce as far as *Toy Story 3* goes, we have Tom Hanks and Tim Allen returning as the voice of Woody and Buzz Lightyear, as well, so I wanted to just sort of make that announcement, too, which we're very excited about and it's really great. Anyway, thank you, everyone. Thank you.

Alan Bergman – *President, The Walt Disney Studios*

Thank you, John and Ed. I hope this gives you a good idea why we're so confident about the studio's future. We believe we have the right talent focused on making the right product for an ever-expanding marketplace. We think this strategy will result in continued success in the years ahead. Thank you very much.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

So we have one more presentation, as I mentioned, and then Tom and I will be back, and that's our Internet group, led by Steve Wadsworth.

The Internet group basically hosts and provides the technological background for all of our interactivity and also runs all of our Disney-branded Internet activity.

And sometime early in the year, I sat down with Steve Wadsworth and we took stock of Disney.com and concluded that it was time for a major upgrade, based on a variety of assumptions. One I mentioned earlier today -that the Internet was becoming more and more of an entertainment medium, and we thought we had a huge opportunity if we created a real entertainment destination.

And so in the middle of the year, in June, we made a personnel change and brought on Paul Yanover. Steve will introduce him properly. And in that short period of time, we not only came up with a concept of a new Disney.com, but we've actually launched it successfully. And so here to tell you about that is Steve Wadsworth, and then ultimately with Steve, Paul Yanover.

Steve Wadsworth –*President, Walt Disney Internet Group*

I'm going to walk through a bit of an overview of how we approach Internet and mobile new media at the company, and then we're going to do a deeper dive into Disney.com and what we're doing with the Disney brand online.

You have heard a lot today about digital media at this company, and I think the key point to take away from that is that our entire company is focused on digital media opportunities. I'll talk a little bit about how that works and our approach across the company.

As you know, we already operate a number of Internet websites through a portfolio of Internet activities and products and we have successfully extended those to mobile platforms. We've been at this for quite awhile and that has successfully built for us a fairly strong market position. In aggregate in the U.S., we have a top 10 position with our websites among all properties in the Internet.

In addition, we reach 50 million monthly unique users every month, and, of course, we have top-ranked positions in a number of key categories: sports, kids, and families. We've also built a leading mobile content publishing business in a number of key markets around the world. Our activities across these various platforms are global, as well. We're in about 65 markets around the world.

The Internet Group's role in all this, as Bob said, is very specifically and exclusively focused on connected networked platforms, which today means the Internet connected to a PC or cellular networks connected to mobile devices. That's all we do, is focus on those.

Bob talked earlier about the importance of software and application development in developing new entertainment for these platforms, and that's been a key focus of ours. That means we're in a position to create unique, unparalleled interactive entertainment experiences for these platforms. We're also in a position where we have built the expertise and the capability to support multiple revenue streams, including advertising and paid content. We apply these capabilities, as Bob said, to our Disney-branded media efforts, Disney.com, our Disney-branded mobile content publishing, and our Disney Mobile phone service.

But we also provide that expertise along with a core shared technology platform to all of the activities across the company. I think this is unique in the big media space, in that we have the ability to ensure that all of our products and properties in the Internet and mobile space are integrated parts of our existing offline media businesses. I think you saw and heard it loud and clear today from the team at ESPN and from Anne talking about ABC.com. These are clearly integrated components of our company’s individual businesses.

At the same time, we have the capability to leverage a common technology platform, shared resources and a coordinated approach to ensure that we're maximizing our opportunity in the entirety of what we do. So, we get scale on our platforms and shared technology.

For instance, you saw a lot about video players and the video distribution capability we have on the Web. The underlying technology supporting those is pretty much common across everything we do. Now, across all this various activity, we're building a number of businesses.

I'll look at them today in two key buckets. The first is our media and services businesses, and the second is e-commerce.

The media and services category is driven by advertising revenue, paid content revenue and MVNO services revenue from our Disney Mobile phone service.

E-commerce is driven by on-line merchandise sales and on-line travel package sales. Now, yesterday and previously we've talked about the overall revenue in these categories and we've mentioned that in fiscal '06 our digital revenue, excluding the online travel packages, was over $500 million in fiscal '06 and the travel piece was over $600 million in '06.

And I think Tom has mentioned that in '07 we expect to be over $700 million in our digital revenue, excluding the online travel packages, and we remain on track for that.

We'll provide a little bit more detail by breaking it down even further into these categories for you now.

In the media and services category in '06, which was really advertising and paid content, because the MVNO was really just rolling out at the end of the fiscal year, we did about $350 million in revenue. The e-commerce business therefore was about $800 million in fiscal '06. Now, what we're seeing is continued strong growth across all of these categories and brands, both internationally and domestically.

The highest growth component of this going forward will be in the media and services category, where we expect to do north of 30% annual growth, at least for the next several years. The e-commerce piece will continue to grow at a healthy clip, as well. In fiscal '07, we can expect across all of this revenue to do about $1.5 billion.

I want to talk briefly about the various products and product categories in aggregate, with a focus on media and services, starting with our mobile content publishing business.

As I said earlier, we are a leading mobile content publisher, so that means we do several things. Not only do we take content that is developed for other media and distribute it on mobile platforms, we also produce unique products specific for these platforms and we do it on a global basis.

In fact, the majority of our revenue in mobile content publishing is around interactive products that we produce for the medium, and it's international. The goal for these products is to distribute them ubiquitously, and we do that through relationships with essentially every major carrier in the world and most secondary and tertiary carriers in most markets.

So we have a well-established development capability, publishing capability and distribution capability. In addition, this is one place where we've gone outside our core brands a little bit and established third-party mobile content publishing capabilities around publishing labels, including Starwave Mobile in the U.S. and Living Mobile in Europe. This has been a strategic move. In the nascent days of this industry, having more product to bring to market and a broader content portfolio has given us leverage and scale in what we're doing.

It's also given us a strong position in the market when we get to carriers to get our products distributed, and therefore we can get a better position for all of our products in the marketplace, including, of course, our core branded products. So one of the things you're going to see us do more and more over time is integrate our mobile publishing or mobile content products more deeply with our online products. I'll touch on that a little later.

The other thing you're going to see us do more of is take advantage of the emerging advertising model that exists and is growing in mobile content publishing.

We've also identified an opportunity in the mobile services space to go more aggressively at a very targeted segment - the family segment. In the U.S., the family segment for mobile services is by far the fastest-growing segment because families are bringing their kids into mobile services for the safety and convenience that it provides.

However, it's also the most underserved market out there, because what parents are looking for is safety, convenience and control and the kinds of services they want are not available. So we've produced it in the form of a mobile virtual network operator, or MVNO. In that service, we are delivering to customers exactly the set of features and functionality that families need to get comfortable bringing their kids and their family into mobile services.

I have a short video that will give you a sense of the kind of unique features and functionality we're bringing to the market.

[VIDEO PLAYS]

That should provide a pretty good sense of the uniqueness that we are creating in this product. It's about features and functionality. Of course, we will incorporate over time more and more of our content, but right now we're winning in the marketplace and building our audience around the uniqueness of the features that this product offers. We rolled this product out in a soft launch last summer. We started to actively market it about five months ago, and what we're seeing is a very strong positive response to it.

In Q1, we slightly exceeded our planned subscriber growth numbers, so we feel very good about where we are to date with this product, and we continue to see nice momentum build as we roll it out. Not only is this a nice business opportunity for us, but it's also a strategic opportunity.

Mobile platforms are generally dominated by the carriers, and what we can do on those platforms is limited by what the carriers allow us to do. With a product like this, the ability to do more integration across our mobile offering and our Internet offerings over time is substantially increased because we control this platform.

Now, let me turn to our online Web-based products. We look at these in three main categories and you've already heard a lot about these today. First, our ad-supported websites that reach a mass audience. We also have broadband products that we built specifically for distribution through broadband ISPs and paid content products that reach a highly targeted audience, with a much more immersive, deep experience. And, again, you've heard about a lot of these, so I'm going to walk through them quickly, starting at the top.

On our paid content products, we've developed a range of interactive media experiences that are very deep, immersive experiences for our customers across a broad range of sites. We've built very nice, robust skills in marketing direct-to-end-consumers and building subscriber bases. In aggregate, across these various products, we have well over 500,000 either monthly or annual subscribers, and that excludes the seasonal subscriptions ESPN gets for fantasy-related paid products. It also excludes the products people pay on a one-time download basis.

So you can expect to see us continue to roll out products in this category more and more over time as we target specific segments.

Now, the products that we've developed specifically for broadband, you've heard a number of them mentioned already today. ABC News Now and SOAPNETIC. ESPN has ESPN 360 and then we have also Disney Connection and Movies.com Max. The model here is we build these products specifically for broadband carriers to license from us and bundle them with their overall broadband offering.

The model is distribution through various carriers in the U.S., like Verizon or BellSouth, but also in the case of Disney Connection, we distribute these products internationally, through providers like NTT in Japan or Terra in Spain and Brazil. The nice thing about this model is as the broadband penetration increases and the subscriber base for our partners increases, our revenue base increases as well.

And finally, of course, our ad-supported websites. We're very, very committed, as you heard today, to making these entertainment and information destinations where we build big audiences around great products. ESPN is clear and away the best product with the biggest audience in the sports category. ABC has set the bar for streaming video television shows on the Web, and our latest example of our commitment to building big audiences around great products is the new Disney.com, which Bob referenced, and which we launched earlier this week.

We launched it on top of what was already a nice platform, from a market position perspective, because Disney Online for a number of years had already been the number one website with respect to kids and families online, with over 25 million unique users every month. We've also established a strong position as a leader in creating immersive, virtual online worlds appropriate for families.

The audience that we reach with these products is fairly well balanced between adults and kids. We reach families broadly. So, as Bob said, we certainly saw an opportunity with the increasing penetration of broadband and much more activity on the Internet around Web 2.0-like community, collaboration and sharing to create a completely different experience and raise the bar for ourselves -an experience that's very, very customer-centric.

So to talk more about that and walk you through it in a little more detail, I'd like to introduce Paul Yanover, who is the Executive Vice President and Managing Director of Disney Online.

Paul?

Paul Yanover –*Executive Vice President and Managing Director, Disney Online*

Thanks, Steve. As Steve mentioned, we looked at a lot of trends when we thought about the next generation of Disney.com - a lot of what we all call Web 2.0, community, user-generated content, video online, virtual worlds. All of these ideas came together as we thought about what would be the next generation of Disney Online. When you really think about it, Disney.com is really about immersing our guests in the worlds of Disney. When we talk to guests, that's what it really boils down to. Disney is a world of characters and stories and franchises.

Further, what we wanted to do was really orient the experience toward entertainment, and create something that was uniquely Disney that really pushed the envelope on the Internet. Steve talked about our audience being composed almost evenly of adults and kids. When you dig a little deeper, kids range everywhere from a preschooler to a little boy to a ‘tween, and, of course, adults range from parents to fans of Disney.

So we wanted to look at personalization to create an experience that spoke to each audience segment. And then ultimately, and I'd argue most importantly, is ‘wow.’ Guests are looking for a ‘wow’. When they think of Disney and they think of the Internet, they expect more from us than anyone else. In terms of the opportunity, what does Disney.com mean to our business? Well the Internet has become such a frequent touch point for our guests that it is probably the most important way to continue to reinforce our branded franchises. It is a daily touch point for our guests.

When you think of it as a daily touch point, it becomes an important vehicle to deepen our relationships. So if we have guests going online, whether they're going to watch movies or video or get information, this becomes an ongoing relationship tool for all of our businesses. And, of course, Disney.com represents a big opportunity to increase revenue broadly.

Steve spoke about advertising revenue, paid content, and other forms of online businesses. But, in addition, revenue is generated across merchandise sales online, vacation sales and generally all of our business, whether they are offline or online. So, with that as a setup, what I'd like to do is demonstrate the new Disney.com for you. And what I'm going to do is actually go live to the Internet and welcome you to the new Disney.com.

It's here, the all-new Disney.com.

So, here we are at what I like to think of as the front door of the Disney brand. What I'm going to do is walk you through this site and give you a pretty detailed tour of how it works and how we thought about creating it.

First, I'm going to give you a little tour of this homepage because it really establishes the paradigm for the whole site. Across the top, you have what we call category navigation, movies, TV, games, music, live events, travel, shopping and mobile. And when you think about it, this is the way consumers think about our brands, particularly adults. From a consumer view, this is how adults start to think about our company, a set of products and categories.

But from a kid point of view, they think of it like I said earlier, as a world of worlds, a world of characters. So, across the bottom, we've provided an alternative navigation, a navigation of characters. I want to interact with Winnie the Pooh, the Princesses, Jack Sparrow and his pirate friends. So right at the beginning, everything about what we're doing is trying to speak to the different ways that people embrace the Disney brand and the different ways they're going to want to navigate the world of Disney.

In the middle, we really want to establish right up front, it's about entertainment. So what you see here is a pretty robust video player with a broad collection of entertainment. I'm watching the music video from *Jump In*! I'm going to jump over here and I see an exclusive piece of footage from the new movie, *The Bridge to Terabithia*.

So entertainment is the centerpiece of this entire site. Along the right here, you see games. When we spoke to our audience, kids and adults alike, games are the number one interactive experience they expect to - and want - to find online, which makes sense when you think of the Internet. This is intrinsically an Internet kind of activity.

So you'll see games are very important to us. They're prominent on the homepage, and I'll show you as we go forward how we merchandise games. And then, lastly, Disney for you. This is the area where we start to look at the different audience segments and provide, in effect, a front door for each audience segment -- preschoolers, boys, girls, kids and teens, families, which oftentimes means parents in our world, and Disney fans.

So, with that as a setup, let me walk through some of these pieces. I'm going to start with movies, so here I am at the movies category page. It is all things movies, again, prominently entertainment focused, a cinematic video display. Here is a play list of all the movies available, up and coming, what's in theaters and what's on DVD and pay per view. It really represents a portal for all things movies with our consumers.

I'm going to jump over to music. Now, when you think of music, think if you were an 11-year-old kid. Music at Disney is everything from Walt Disney Records to music videos on Disney Channel, to Radio Disney in the car on the way to school. We've brought all that together in one place with, again, a focus on entertainment and a focus on presenting the Disney brand from a consumer-centric point of view.

I'm going to jump to games. The games section includes everything from games online, free games I can play to console games that I can buy, shrink-wraps, to games on a mobile phone. We brought all of the games together here, again, in one location. We even built what we called the game finder.

The idea here is to provide simple navigation, but comprehensive navigation, so that guests can search for every game we have. Literally, there are hundreds of games catalogued here. I can find them by character, by age, by game system and by game type. And, again, when you think about how important games are to our user base, providing this kind of robust collection and robust navigation is very important.

I'm going to take us back to the homepage and take a look back at the character navigation. I spoke earlier to the idea of a “world of worlds.” Earlier today, you saw the Fairies website, the portal to the entire universe of *Tinker Bell* and her fairy friends in Pixie Hollow. We have actually built out this character navigation to be that point of entry for all the different franchise worlds we've created.

Here I'm going to click on the world of *Meet the Robinsons*, a film coming up later this month. And, again, the idea is to create deep, immersive worlds for all of our different character franchises. You go back to our homepage here. So you see at the top level the idea of immediately providing pathways for our audience - the adult pathway which is a little more focused toward the product category and the kid pathway which is little more focused toward characters and worlds. Again, let's talk about customization and personalization. I'm going to click on preschool, and what you'll see here is in effect an alternate front door, an alternate homepage, built all around the world of preschool.

You see the prominent video focused on entertainment, but a slightly different navigation where we really want to present from an activity perspective, “what do you want to do today on Disney.com? What do you want to play, watch, listen, visit or shop?”

We’ve also built out these lifestyle front doors for this range, from preschoolers all through Disney fans. I'm going to click on a few to show you. Here I'm going to go to kids and teens, and you'll see a navigation similar to what I showed you in preschool, with a very different look and feel, because Disney means so many things to so many different audience segments.

So if I'm an 11-year-old girl, I really want a collection that makes sense to me. That's going to be very different than a preschool boy. You'll even see we've repeated the paradigms I've talked about in the homepage: pervasive product categorization and even character navigation. Only this time, we've narrowed it down to a more relevant set that makes sense to kids and teens.

So you can see here I'm looking at a music video from the band Everlife, pretty different than what I might expect to find on the preschool page. Let's take a look at one more. I'm going to go to the boys page. Now I've left the H*igh School Musical* universe and I'm in the world of *Buzz Lightyear*, and again, my video, my entertainment, my choices, have been put together and crafted specifically for this audience segment.

Now, I talked about pushing the entertainment envelope, and we've done a lot of that with everything I've shown you already, really tilting the site towards entertainment rather than pure promotion and marketing. We wanted to take it one stop further. We created something that we called *Disney Xtreme Digital*. The idea was to create a digital experience that takes advantage of all things on the Internet - interactivity, video, broadband… everything.

Right now I'm watching a behind the scenes video, the making of *Pirates of the Caribbean*, and I'm going to click Disney Xtreme Digital. You're going to see my environment is transforming, and I'm going to go into a very broadband, very entertainment-oriented area. It’s focused on the way kids play, the way kids interact today, and that's really about multitasking.

Watch any kid today and you'll find they're watching TV, they're surfing the Web, they're chatting with friends, they're playing games and they're doing it all at once. That’s what XD is all about. I'm in a totally different Web environment than we're used to with traditional Web pages. The first thing I want you to notice is I'm in control - the kids are in control. It's a word of moveable objects that they can clear off their desktop.

Steve spoke about software and software applications. In effect, what we've created is our own operating system, our own game console system virtually, and on the Internet. I can interact with this world. Here's a poll, what's the best part of being a pirate? Sailing a pirate ship. I'm also communicating. I'm interacting with the environment, and I can clear that space.

We saw the video world that we had on our homepage and our lifestyle pages. Here, we take it one step further. I have a rich list of videos. There are over 350 videos throughout this site and over 150 games and it's just at launch. I can also do multitasking. So what I've done here is I've pulled open a play list. These are all the games that I have available to me in *Pirates*.

Now I'm going to choose this game and you'll see the game comes up. I click to play and now I'm doing the *Monkey Game*. Now I'm doing what every kid really wants to do, play a game and watch a video in an integrated environment. This is just the way kids live and play today.

I focused the introduction on the *Pirates* channel. We call them channels, and we have a pretty broad portfolio of channels. Let me take you on a little tour. We start on the *Pirates* channel, and then I'm going to take you to the *Cars* channel. Here we're going to see all things *Cars* - video, games, interactive applications, community- all built around franchises that have broad appeal.

So not only can I browse this environment, experience all this content and multitask, I can get involved. So what I'm going to do now is log in. I'm going to type my password, and we're connecting to the system.

Here we go. So there I am. I'm logged in. I'm Yanman. There's my avatar character, Peter Pan, and there's a lot more I can do now that I'm logged in. Most importantly, I can start to connect with friends. I'm going to open my friends list here and here are four friends I have online. Now, what's really interesting here is that I know only can I see who is online, but I can also see where they are.

Today, it says they're here, in XD. Over time, we're going to extend this platform that we've built so that kids will be able to connect online from a variety of platforms, a variety of titles. That means I could connect with my friends who are on their Disney mobile phone or on their Nintendo DS across any range of titles that we developed. So it's not just an Internet environment, it's an integrated environment.

What I'm going to do here is say hello to a friend. Talking to my friend, Sparky, and I'm going to suggest we go off and play a multiplayer game. Let's play *Cars* Trivia. So we're just typing here, let's go play *Cars* Trivia. I'm going to close this stuff, open up my games list. Now I'm in the games for *Cars*, and I'm going to open up *Cars* Trivia.

What we've done here is created a multiplayer environment, so what you see is Sparky (my friend), me (Yanman) and other kids can come online and now we've taken the multitasking universe I've talked about and taken it up a notch. Now it's multitasking inside a community environment.

What I'm in is actually a game lobby, and you can see a countdown clock as players are assembling to play in a multiplayer quiz game, challenging each other. “Who's the Hollywood actor who voices Vin?” It's not Larry the Cable Guy. You can see my knowledge of *Cars*. “Which one of these songs do The Chords sing in *Cars*?” I better get this one right. All right, I'm going to quit this, because I'm not very good. You get the idea, multiplayer gaming.

But it's not just a about movies. Let me take you some other places.

Here's the Disney Channel section. It's where kids can watch TV online. Earlier in the year we launched Disney Channel Broadband, where we broadcast Disney Channel shows through the Internet.

We've taken that one step further in the XD environment, because now kids can do it in this community environment that we talked about. So, again, they're in control. I can jump around, I can choose shows. I can even select exactly the shows that are interesting to me. I went down a play list there. It shows *That's So Raven*, because that's a show I'm a fan of.

We've built out this environment against all the franchises that we have available. So, again, we're in a world now that really has limitless shelf space, rather than just the single-dimensional world of one channel. I have multi-channels, so we can break it up for the fans of *Hannah Montana*, the fans of *Raven*, *The Replacements* and so forth.

But it's not just about TV and movies. It goes way beyond that. I can go to the Radio Disney Channel. Here you'll see music videos. I'll be able to stream the radio live to my computer and bring that around with me wherever I go. So it's really about kid empowerment, kid control. It's about taking the media experience to a new place with a really broad range of stuff.

I'm going to go to the Games Channel. Here we've basically taken every game available in XD and compiled them and assembled them into one place where kids can go in and play games, so at launch here we have well over 150 games. But it even goes broader than that. Let me take you to the Disney Fan Channel, so when you think of the breadth and depth of our company, of our brand, there really are limitless possibilities.

So imagine all the fans of Disney who are interested in everything from the history of Disneyland to the beginnings of animation. Here we've assembled a collection of historical content. I'm going to click here. It's a behind the scenes of the making of *Mary Poppins* with commentary by Julie Andrews. The last thing I'm going to show you, the Mickey Mouse Channel.

Whether it's connecting with friends, earning rewards, status, badges, there's something about the simple pleasure, of a kid being able to watch Mickey Mouse. And you'll see here, I'm going to open up a game. Here we are. Here's that simple pleasure, playing air hockey while I watch Mickey Mouse. It's really something that kids have never been able to do in a single integrated environment.

So that's a quick look at Disney.com and Disney XD. What I want to show you is something that's about to launch. If you noticed when I came up in this, it said beta. Over the next several months, we'll be in beta and we'll be rolling out new features. So there are a few features I want to show you that are not live, but I think they're very exciting and speak to where we're going to take this environment even further.

So we're going to switch over to a demo for something we've brought along from Burbank, right from the development group. Now we're looking at XD again. Here I'm on the Tinker Bell Fairy Channel, and what's going to be really exciting is kids are going to be able to create their own channels. So think of what the world of social networking has done and imagine how we're going to translate that in our world.

Wherever I go in Disney XD, I will be able to take elements, video, games, applications and save them into my own personal backpack. And then I'll be able to take them out and create my own channel. So I'm going to go here. I'm logged in now as Jake562.

This is Jake's channel. Jake is assembling all the stuff that he likes, so it really gives kids the ability to create their Disney, their personal experience. I'm going to go into the video collection here. Here's my list of videos I have in my backpack and I can add to the collection. So now I've put the *High School Musical* video into my channel. Not only can I make my own channel, but now we've gone from customization to a real level of personalization, and we can publish it. So now I'm going to go to a list of everybody's channels.

I've clicked on another kid's channel. This is Supertink75's channel. It's her personal Disney, the videos she likes. You can see *Ratatouille* is a favorite for Supertink. *Pirate's Puzzle*, *High School Musical*, a *Cars* clock, her dream vacation at Walt Disney World, all the stuff this kid has put together - her personal look at Disney. And what I'm going to be able to do is leave a note. So we've got this notion of stickies. Think of it like a digital Post-It note, if you will, and I'm going to let this kid know that I think her channel is terrific.

In the future, what I'll be able to do is not just leave a note that says I think it's great, but a note that will actually be an invitation to become friends. And, with that, we'll give birth to our own social networking, avid fans around our franchises, our content made personally by them, for them.

So that's a look at Disney.com and Disney XD.

What I'm going to do is switch gears here. I want to talk about virtual worlds. Steve talked about our paid content and the development of that business model. We've been nurturing the world of massively multiplayer virtual words for a number of years. We have a product called *ToonTown* in the marketplace, and this spring we're going to launch something called *Pirates of the Caribbean Online*.

What it is, is a virtual recreation of the world of Jack Sparrow and his pirate friends. You'll be able to go online and literally live the life of a pirate, assemble a crew, sail a ship, fight with pirates on land and on sea and battle. We're going to make this available on a new business model. We'll launch *Pirates of the Caribbean Online* at no cost, but ad supported, and we'll provide about a third of the game unlimited, at no cost, ad supported.

The remainder of the game will be subscription based. We're really excited about this because it's a huge franchise, with huge appeal and the idea of creating virtual worlds opens up whole new territories for us.

So, with that, I'm going to leave you with some footage from the new *Pirates of the Caribbean Online.*

Thank you.

[VIDEO PLAYS]

Steve Wadsworth –*President, Walt Disney Internet Group*

So you've seen the new Disney.com. You've gotten a sense for the immersive environments that we can and will create going forward. I think as we look ahead it opens up a world of opportunity. Disney.com is more than just a new website. This is a new platform - a platform for immersive, interactive experiences that we intend to build on.

We intend to take this global. As part of this, you've got to think about the various worlds that we can build. Paul talked about this world of worlds that is Disney. Well, just imagine the virtual world of *Toy Story*, with Buzz and Woody or *Narnia*, defending Narnia against the White Witch, or immersing yourself in the world of *The Incredibles* and defending against villains. For the opportunity to actually live in the virtual world of Radiator Springs and have your own car, and have your own presence there, or, if you're a girl, being a princess in the world of Disney princesses.

All of these things are possible with a platform and capabilities like this, and these are things we intend to build out and grow over time. In addition, one of the things we'll continue to do is ensure that we're increasing our cross-platform integration, particularly between mobile and Internet as the two of those things converge more and more. We have the opportunity to allow people to immerse themselves online and take it with them on the road.

And, finally, as I said, we'll be doing all of these things globally. You've heard throughout the day about the huge momentum that we have across the company in this space. It is significant and it is growing. We have the skills, the capabilities, the brands, the products and the properties. More importantly, we have that momentum across the entire company. We have the vision and we have the leadership from the top to go build out some amazing experiences on the Internet and on mobile. Thank you very much.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

We have chairs. Do you want to sit or stand. It's up to you.

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

We've been sitting all day.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

So this session is primarily for us to take your questions. Just a couple of thoughts now that you've seen all the presentations. From my perspective, Disney is firing on all cylinders, and I think we demonstrated that last night and today. We have a television network and TV stations that are in really good shape, some of the best programming on television, top stations in the top markets. I'm really impressed with the management and the lineup of the studio.

You got a really long look at what is in store at the studio on both the animation side and the live-action side and I think there's huge value there, particularly in the Disney-branded franchises that are being created. And, again, I said it earlier, I can't say it enough, having John Lasseter and Ed Catmull in the company, having John Lasseter's talent, that eye, running animation across the company is really something of great value and I'm really thankful for that.

The Disney Channel I think was incredibly impressive, those results. The power that they have to not only create value but to basically grow the brand in just about any territory in the world and the value that that has across all of our businesses, just look at what's happened at our company today, really thanks to the Disney Channel.

For Consumer Products, I consider Andy Mooney the brain surgeon of licensing. He's done a hell of a job turning our licensing business around. It was I think somewhat wayward in the latter part of the last century, and over the time that Andy's been here, he's really done a great job transforming it, and I think we've got great stuff going on in the game side. I think ultimately that will create real value for us.

Parks and Resorts, best in class, probably an understatement, not only what they create at places like this, but the potential that they represent in a variety of other ways, as Jay took you through last night.

And then of course the Internet Group. What Paul Yanover and Steve and their team have done, working day and night over the last six months to create that site is really quite something, and I really believe you've just seeing the beginning. The opportunity that we have to use that site to grow the brand, to deliver product directly to customers, to get to know who our customers are, to grow revenue in many different ways, whether it's a subscription model, a pay-per-view model, advertising.

Advertisers today are looking for opportunities online beyond just paid search and banner ads. They like a very, very robust environment to run basically television commercials, and we've created an opportunity for them to do that. The other thing I'd want to say is we've got a team that goes beyond the team that you saw today, that includes Alan Braverman, who is our General Counsel, who is not only a great lawyer, but a great businessman, and Zenia Mucha in the back, who runs corporate communications,; Kevin Mayer, who runs strategic planning; Christine McCarthy, our Treasurer, and we just hired Kerry Chandler to run Corporate Social Responsibility.

This is a company because of the name on the door and the legacy that we have and the standards that are expected of us that really has to uphold high standards. One of the reasons why we launched the Healthy Foods campaign is that we're taking a look at environment issues, the whole notion of being a green company, what we do philanthropically, not just in the United States but around the world becomes important because we're Disney and we now have Kerry running that for us.

So I'm obviously an enthusiast, very excited. I think we've gotten a huge amount done over the last 15 months in a variety of ways. We're clearly running this company in a very collaborative way. I often like to say ask not what you want for your business, or do for your business, ask what you want to do for your company, and that's the approach that we have across all of our businesses. I'm very, very excited about what lies ahead. I think in many respects, it's just the beginning, but I'm really excited about what's in store.

And so with that, Tom, unless you have anything else?

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

The only thing I'll add is that it strikes me to do $1.7 billion of earnings in a quarter, and of course there's polite applause, you bring on a couple of *Super Bowl* champions and there's thunderous applause, which reminds me of the power of sports and makes me glad we own ESPN.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Oh, I didn't even mention ESPN. I worked at ABC Sports for 13 years, and of course there's ESPN, which is, as I know you all know, our largest profit center, an organization that's as professional as it gets. George Bodenheimer's leadership is just great when it comes to running that business and what he's managed to do for that brand and that business is nothing short of sensational, too.

So how I forget ESPN, George, is beyond me. We talk all the time, too. Anyway, questions? You do the picking, Tom.

Q&A

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

Number one.

Audience Member

Tom, in the past, you've talked about theme parks Cap Ex of around $1 billion annually. Would that include some of the blue sky concepts that you talked about last night? If not, can you just help us size the potential investment there? Thanks.

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

What we've talked about is domestic theme park and resort capital expenditures and we have said this is comfortably under a billion, which I think is a suitably vague term. But you've seen it over the past several years be well under a billion. We talked at the beginning of this year that it would be up somewhat year-over-year.

One of the things that Jay talked about last night was the fact that we hadn't decided on any of the concepts, and then beyond that haven't decided on what financial structure we would pursue with any one of them. It's conceivable that if we were convinced that there was an opportunity that required capital that we'd be given a great return on so we could move above that, but right now I don't see anything on the horizon that's going to drive us there in the next few years.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

We are an executive team that has experienced the concept of tying pay to performance and we believe in that. And the four primary metrics that are looked at when it comes to devising our pay are operating income, earnings per share, free cash flow and return on invested capital. So I can assure you, based on the concept of tying pay to performance and using that as a primary metric, that the investment that we make from a capital perspective in any of our businesses, particularly the theme parks, is going to be done with an eye toward growing returns on invested capital.

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

Number two.

Audience Member

So one for Bob and one for Tom. Bob, I think externally it's easy to see some of your value creation through your dissembling of Strategic Planning and your driving technology through content over new platforms. I think one of the most interesting things in these presentations has been a number of your division units have stood up and said that a difference between you and your predecessor was that before the Disney films were the engine and all of the ancillary rights drove revenue after that, whereas under your leadership, other things like Disney Channel content, can create divisions and the other divisions then support and drive growth.

So I'd be interested, with no disrespect to your predecessor, in other things that you think you've brought internally that it's hard for us to see on the outside that you think are driving and accelerating the growth here that might bring longevity. Tom, to you, financial leverage. Love all the return on capital speak. But about financial leverage, how much leverage are you willing to take on to buy shares?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Why don't you answer that question, so I can have time to figure out how I'm going to answer the first part of the question.

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

Yes, good idea. I thought you were going to try to swap questions on me.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Okay, that's a deal.

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

We're actually pleased with where our balance sheet has been and I've said in the past that we think that right in that A- kind of range is about where we'd like to be. Now, we're under review for upgrade from both Moody's and S&P, and that generally means that they are thinking hard about acting.

As you see, we've been aggressive in the share repurchase. I think you should see we're going to continue to be aggressive in the share repurchase. Levering meaningfully, beyond the rating targets that I've talked about, is unlikely at this point. For absolutely the right opportunity out there, to build the business further, perhaps, but from the standpoint of a share repurchase today, with such strong cash flow, we have plenty of money to allocate in that direction without moving beyond the rating targets we've talked about.

Want me to go on for a while?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Yes, I don't know how to answer your question. Michael and I actually are quite similar in many respects in that we both spent a good chunk of our career on the creative side of the business, and for me it was ABC Sports and ABC Entertainment, the ABC Network, and we both appreciate the value of creativity. It doesn't matter whether it comes from a theme park attraction, from a video game, from a book. Fairies is a good example of that -- or from a film.

And I don't think Michael felt that all the creativity or the single creative engine of the company had to be the Motion Picture Division. I think he really believed that it could come from anywhere, and that's certainly what I believe. A lot of people will spend a fair amount of time comparing the two of us, I guess. It's sort of a natural tendency when there's a change at the top.

I think I pretty much disclosed to all of you fairly openly what I'm focused on at the company. I talk about creativity a lot and the value of technology and being more global. I also believe strongly in hiring great people, which we've done over the years, not just me, but Michael did it as well, and giving them the room.

This is a big, complex company, and we operate in a lot of businesses in a lot of territories and I can't do it myself and I'm fortunate that I've got the talent that I have, you all saw, from Anne Sweeney to Jay Rasulo to Andy Bird to Tom Staggs, I have a lot of trust, a lot of faith in these people. And I believe that giving them the room to operate, giving them the room to essentially exercise their own talents is the best thing that could happen for this company and that's what I'm all about. We talk a lot about our direction and our values. We have high accountability. That's incredibly important in this day and age, but it's really giving them the room and the support and the feedback just as much as, at times, the direction.

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

Anthony. Who has the microphone? Chris.

Audience Member

Bob, you talked a lot about being platform aggressive or platform agnostic and you've been very, very proactive in developing and taking many of your content and products across those product platforms. Earlier this week, Steve Jobs indicated in talking about the music industry that the time perhaps had come to get rid of digital rights management and maybe the horse has left the barn. What's your view in terms of Mr. Jobs' comments?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Well, I think it's very, very interesting, because the record industry makes millions of CDs without any digital rights management. A lot of those are ultimately ripped onto computers and find their way onto the Web in a variety of forms, so in reality the digital rights management that's applied is to just the digital downloads side of the business. I don't think it really is an effective measure to really prevent people from doing whatever they want with that music.

So I think his premise is actually a pretty sound one, although we've only had discussions. We haven't made any decisions about how we're going to react, because we are in the music business. It's interesting, in thinking about Disney.com, one of the things we talked about was the nomenclature and the iconography on that site.

The music business should be talked about today as the music business, not the record business. When you talk about records to kids, they think they're talking about something that sits in their dentist office's drawer, their dental records, which is interesting just in terms of -- I'm digressing, but the approach on Disney.com. You have to put yourself in that mindset when you create in today's world.

Anyway, we have made a decision in terms of our music business. It doesn't apply to the video business, because there is a digital rights management system in the standard definition and in the high-definition DVDs and I believe that that must remain, particularly in the high-definition side, and we have to do whatever we can to see that it is as robust as possible.

It will ultimately get hacked, but then there's a renewability issue that I think also has to be dealt with. But I think he made a lot of valid points. I hadn't really given it that much thought until I read it yesterday. But I thought it was interesting.

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

Number one back here.

Audience Member

Okay, I have one for Bob and one for Tom.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Where is it coming from? Sorry.

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

We can't see past about the third row.

Audience Member

So, Bob, you spent a lot of time today and yesterday talking about video on the Web, but you would argue, listening to Anne Sweeney, that video on TV is still a big opportunity. So, on that, where does VOD fit in for you? I know you did a Comcast deal. Could you talk a bit about how soon will stuff hit VOD? What types of shows will be on VOD? How will advertising be sold?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Well, when we talk about being platform aggressive, we talk about making great shows and then making sure that they occupy space in a variety of ways. The network television business is still important. The home video business is still important. Tom yesterday put up a statistic, rather staggering, that we sold 128 million videos in the quarter, and here we are talking a lot about video on the Web. Video off the shelves is still rather valuable to us.

Video on demand is a significant component or a -- I shouldn't say significant. It is a component of our Comcast deal. The most significant, of course, is the channel business that we essentially license to them. And we're going to be putting up a number of shows, both Disney Channel shows, as well as ABC shows.

Are some up already, Anne? I don't know what the date is for them. They're not up yet, right? Next fall? And for Disney Channel?

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

Disney Channel will probably go up in advance of that.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

And you already have Disney Channel shows on other platforms, like Cablevision's got certainly video on demand.

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

Right, we have a subscriber video on demand deal that's actually a couple of years old now on Cablevision for Disney Channel.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

And there is an advertising component to a number of these deals. The Comcast deal has one. We'll be selling the advertising in those shows. And skippable? I don't remember. Not skippable?

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

No.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

I think video on demand will grow. I don't know how big, but we've taken an open approach to it, meaning, again, it's another means of getting great programs in the hands of our consumers. It's another means of potentially broadening our revenue stream, giving advertisers another opportunity. So much talk about the impact of DVRs, which, incidentally, is interesting because people who have them tend to watch more television.

This is yet another way to get the program to the consumer and enable the advertiser to get the advertiser's message to the consumer. Thanks for the help. Thanks for the assist.

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

All right, we've got a couple. Dave's got the mike.

Audience Member

Bob, about a year ago, you and I had a conversation where I think you admitted that the $1.99 price point on the iTunes downloads, or iTunes video downloads, rather, was something that didn't really carry a lot of analysis with it. You guys sort of threw out $1.99 as something that you felt was convenient to the consumer. Given where the demand curve is now, however, and of course a lot's changed in the last year to 1.5 years or so, do you see tweaking that pricing at all, and how so? Thanks.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Well, you're right, Dave. There wasn't a lot of analysis. There was a fair amount of discussion Anne Sweeney and Steve Jobs and myself had over it, and it was difficult to really tell what the right price was.

Steve had a very firm point of view about it. And there was some negotiating, some back and forth. We ultimately decided that $1.99 seemed to make sense as a start, and while we've given it some thought, we haven't reached any conclusions or made any decisions about changing the price, except that I think consistency is really important, and that's what's been achieved on the music side, making sure that, again, ease of access that I talked about earlier, the customer experience is a good one. It is not just about how easy it is to download or how easy it is to catalog or how easy it is to play whatever has been downloaded, it's how easy it is to find it and how easy it is to buy it.

And Apple has made it very easy to buy, not just in price, but the fact that it's a consistent price. I think it's way too soon, though, to tell whether there's more room in the pricing. I don't think the pricing is too expensive, by the way. My sense is that it's not a significant barrier, given the fact that Steve announced at Macworld 50 million TV shows had been downloaded or purchased since we launched with him in October, and Anne mentioned that about a third of those were ours.

I don't think price is getting in the way, but we're not right at the moment on the verge of increasing the pricing, either. Consistency will probably be the most important thing.

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

Okay, Anthony.

Audience Member

Thank you. Tom, a couple questions on margins. Last night, Jay Rasulo said that theme parks domestically were at a 20% margin, your normalized margin. I was wondering if you could comment if you still think there's additional opportunity above 20%? Consumer Products, currently 36% contribution margin, but 17% of that business is direct to retail, going to 30%, so you have a mix shift favorability there over the next couple of years, in addition to the fact that your $250 million video business is losing money and would likely double in revenue, so the margin opportunity is there.

And then where would the Internet margins be in '06? On $1.5 billion in revenue, it seems like there's a big opportunity there. So three margin questions.

And then, Bob, how aggressively will you market Disney.com? Internationally, will you be more aggressive than domestically, maybe a way to enter some of those emerging markets more quickly? Thank you.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Tom, you need a little bit more time to answer his question.

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

If you give me too much time, I won't remember his question.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Write it down. The Internet is interesting, because it's about as viral a medium as has ever been created, and I guess you could argue, put it up there and ultimately people will find it, but we believe that it's good enough and important enough that it deserves some special marketing.

So probably after XD moves from beta into whatever the next phase is called, we'll begin to market. We actually have plans in place for some special events, perhaps an exclusive concert of some sort and a fair amount of marketing across all of our businesses. We're going to launch this version of Disney.com in multiple markets internationally. Stanley Cheung mentioned we're launching it in China, although we haven't announced when.

I think it's likely that the UK will be the first market to get the new site, but you can imagine around the company, internationally, there's clamoring to get that site into their markets. And we haven't really even discussed the marketing plan for markets internationally yet.

We think we've got some great opportunities in the United States, although this thing has already taken on a life of its own. Just as a side note, the first day we launched, with no fanfare whatsoever, the default video on the same site that Paul showed you, *Spectrobes*, which is a game that Graham Hopper showed that is in production, if you went to the games site, a little *Spectrobes* video played -- 450,000 of those were viewed in the first day without any marketing. Now, that's marketing for *Spectrobes*, but it's amazing that 450,000 people somehow or another went to the games site and watched that video. So it says a lot about that medium.

It's also, by the way -- I know I'm obviously wildly enthusiastic about this. It's going to be a great marketing tool for the whole company, too. *Spectrobes* is only one example, but the things we'll be able to do -- and also the ability to keep franchises alive.

When Paul talks about creating virtual worlds, and I know my kids, eight and four, are big fans of Club Penguin. They go onto these online worlds, which are what *Pirates* are going to be, and we're going to create multiple online worlds. *Fairies* is already in the works and *Pirates* and *Princesses* and ultimately *Cars*, which will give people a chance to interact with the cars of the movie *Cars* and to go to Radiator Springs and also to create their own for years to come and basically keep people connected or recruit new people to get connected with these franchises.

I think there's a lot of power there, too. That's a very exciting aspect to this venture.

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

Question 1A, in the theme parks, as Jay mentioned, if you take a look at the margin on the basis that we were measuring it when we made the 20% target, that was there last year. I think Jay also said that they're not leaving it there, they think there's room to grow and they're going to focus on growing it.

I think he studiously avoided putting another target out there, for good reason, especially as he thinks about business mix potentially changing over the long term. I think what we're really going to be looking at is making sure that we're growing profitability and, in the long term, returns, and that's going to be the primary measure by which we sort of make our decisions. So it's very clear that continued margin improvement in the base business is absolutely part of the game plan. It's there.

In consumer products, Andy Mooney talked about the licensing business and the high margins we've got in that business. We think that we can maintain those high margins, but at the same time, remember, we talked at the beginning of the year about the investment we're making in the licensing business, in the area of new category development and product planning.

So I think that there is opportunity there, but the bigger opportunity right now is volume growth as opposed to margin expansion in the near term for consumer products. When you put aside fluctuations, it would be the minimum guarantee revenues. And then on the Internet side, Steve Wadsworth and I have talked about it a fair amount, and we've avoided discussing margins explicitly, and the reason for that is this.

In 2006, for example, Disney.com and the related businesses that Steve manages at P&L directly, that is not ESPN.com and not ABC.com, they were modestly profitable. Now, we're purposely going to invest this year and we will lose some money on the P&L that Steve manages this year as we develop MVNO, as we invest in Disney.com and actually look at just where to put advertising on the site, et cetera. So this is absolutely an attractive double-digit margin potential business. But at the same time right now for us, it's a business we're investing in.

And so you'll see margin expansion down the road. For the moment -- by the way, same is true with ESPN. ESPN's margin in 2007 could be -- dot-com, by the way -- could be slightly lower than in 2006 because of the investment that they're putting into the local sports, some of the other sites. So I'm actually pleased to see that investment now. I think it's exactly the right thing to build out the presence on those platforms, and down the road you will see margin expansion on those.

Okay. Bob, Larry?

Audience Member

You guys sell advertising, but you also buy hundreds of millions of dollars of advertising. Over the last couple of years, can you as a percentage of sales give us some idea as to how your channels have changed, how the percentage of sales may have changed and some view on where that might be going in the future? And, Tom, I guess I must have missed in George's presentation, sales and EBIT, so if you could give us those two, I think we could be happy.

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

I'm sorry you missed it. We just can't repeat those kinds of things.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Larry, are you asking what percentage of our advertising spend is on new platforms?

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

He means we were roughly 23% last year and what the mix --

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Oh, I'm sorry, as a company.

Audience Member

[Inaudible question - microphone inaccessible]

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

Oh, spend on advertising.

Audience Member

[Inaudible question - microphone inaccessible]

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

In other words, I don't know.

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

Our advertising buy, our marketing spend.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Our marketing spend as a company is roughly $1 billion.

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

A little over.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Billion on Disney branded, probably. And are you asking are we spending it on new platforms? I know I'm asking the same question.

Audience Member

In terms of media, newspapers, TV, cable?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

How do we break it down?

Audience Member

Yes, what channels are winning, what are losing, as far as you are spending the money.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Well, I don't think we'll break it down for you specifically, but maybe, Oren, I know because you and I have talked about this a fair amount, we have increased greatly our spend on new platforms. And I think you told me, I hope you still feel this way, that we're probably leading the industry from a movie perspective in terms of money spent on new platforms? Correct?

Oren Aviv – *President, Production, Walt Disney Pictures Group*

Yes, we're probably year-to-year over the last several years, probably doubled every year is a good guess.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

That's on new media. But I don't think we've ever broken down how much we spend on broadcast, and we'd rather not do that. But we are spending more on new media and believe that it's vital for us to do that.

The other thing that's happened over the last two years, which maybe will cause us to take another look at the marketing spend for our various divisions, is that as the Disney Channel has grown as much as it has in audience, the numbers are dramatic in terms of ratings performance over the last few years. The value of our marketing has grown immeasurably -- well, not immeasurably, it's grown significantly, probably in the hundreds of millions of dollars in the last few years. Anne Sweeney is nodding her head.

She hasn't gotten any real credit for that, but we use the channel very effectively to market our other Disney-branded product. And one of the reasons why we went in the direction that we did on the motion picture side with Disney-branded films, not necessarily the driver, but certainly a factor, was that we knew by making Disney films we could use the might of Radio Disney and the Disney Channels and all of our other Disney-branded businesses as marketing platforms.

That's a real competitive advantage that we have versus some of the other media companies. And, again, the Disney Channel value is huge.

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

To that point, one of the things that's probably the more important issues to us is that as we build out these new platforms, and you saw a lot of it today, we are finding the presence of that content on new platforms, Disney.com is a great example, brings people back to the content, deepens their relationship with the content and actually can probably save us some money on the advertising side because the product experience itself is marketing the other platforms of the company. Not because we're advertising, but because we're deepening the relationship. It's just why the Disney Channel has been so successful.

Those aren't ads on Disney Channel. What they are is chances for that audience to experience the product, and by experiencing the product they look for other opportunities to experience it. So the Disney Channel was a case study but there are other platforms that are doing just that, and Paul's whole discussion is central to that purpose.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Single biggest at this point, Oren or Alan, single biggest channel for you in terms of advertising is the Disney Channel.

You can wait for a mic.

Alan Bergman – *President, The Walt Disney Studios*

Yes, the Disney Channel is our single biggest driver.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

And interestingly enough, I don't have to do much refereeing between the businesses for that to happen at this point. It's a legacy that exists at the company, but again, it's that whole sense that our senior management team has as to the value of a company and the importance of a company versus an individual business unit. And the cooperation that exists between the Music Group and the Disney Channel, as Rich Ross talked about or Alan mentioned in his presentation, or the cooperation between the studio and the Disney Channel for the marketing. It just happens at this point. It's rare, rare, that some issue comes to my level that I have to get involved in, which is great.

It's I think a real testament to the maturity of the group of people that run these businesses. I'm not talking about their age.

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

All right, whoever's got the microphone. One.

Audience Member

A couple questions. When you look at -- or the follow-up to Michael's question on VOD, could you talk about your view on day and date with DVD VOD, for movies at the $4 price point, essentially equal to the rental price point? Two, could you just update us on labor negotiations, both as it relates to the movie industry, as well as Walt Disney World? And then last, could you quantify at all the investment in Disney.com and where that shows up in your financials? Thanks.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Oh, I'll talk about the Guild negotiations or lack thereof, and I'll let Jay and Alan Bergman answer the other questions.

There are major Guild agreements up with Hollywood producers that includes television and studios over the next 18 months or so. The wagons are kind of being circled right now. I think it's a mistake for the industry to conclude that there is going to be a strike. I've heard a lot of talk about that.

There's a fair amount of rhetoric out there at this point. There are some really complicated and really important issues, particularly as it relates to the digital world and what happens with content that is created for a traditional platform and ends up on a digital platform, or what happens with content that is created, original content for new platforms.

And so I think it's going to be a while before things get sorted out, but a work stoppage is not a foregone conclusion and while I don't want to in any way suggest that I'm optimistic, because I think the issues are complex enough, I at least hope that we can figure out a way as an industry to create a dialogue with the Guilds, there are three -- the Actors, the Writers and the Directors--because I think that it's going to take a lot of dialogue to get through some of these issues, if we're even capable of dealing with all of them in basically the next round of negotiations.

Jay, do you want to talk about any of the labor issues related to your business?

Jay Rasulo – *Chairman, Walt Disney Parks and Resorts*

Yes, we officially began union negotiations with the STCU service trade unions, our biggest by far, representing, I think, I want to say 29,000 of our cast members here at Walt Disney World, food and beverage, characters, bus drivers, so a big group.

Their current agreement expires on April 28th, so we're still in the very early days. We've had a great relationship with this union over the years. Clearly, there's things we want to accomplish in those negotiations, as there are things that they would have in their own mind. But so far it's very early going. Things tend to get much more intense as you get into the last couple of weeks, so I don't have anything really to report other than the status of the fact that we are engaged with them as of the 22nd of January.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Alan Bergman, you want to comment on movies and video on demand, both the window and the pricing?

Alan Bergman – *President, The Walt Disney Studios*

Sure. This is a scenario that we spend a lot of time looking at. Clearly, we want to protect the high margins of the DVD business, but we are open to testing the VOD day in date, just to see how that turns out. Obviously, if we can get a higher margin on a VOD rental transaction than say a Blockbuster transaction, it's something we'd definitely be open to doing.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

And right now we're experimenting in two markets with Comcast on video on demand in the same window as DVD, and it's still too early to say what we're seeing there, either from a pricing or a take-up perspective.

Alan Bergman – *President, The Walt Disney Studios*

Right, we do have higher margins on VOD rental than we do on a Blockbuster rental transaction, but it's too early to tell, as Bob said.

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

The Disney.com investment, along with the rest of the Disney Internet Group, rolls up into broadcasting. Bill?

Audience Member

Thanks, Bob, one of the things that's inherent for you all to grow earnings is a good economic environment, and it's been pretty good for the last few years and your earnings have obviously significantly outpaced that. I just wonder if you consciously think of any ways to reduce your exposure to cyclical swings as you go forward with the business.

Is there any way to really do that, given how exposed your core businesses are? And then maybe given that you took over as the COO right in front of the last downturn, just wondering if there's anything that you learned from that that you might apply to the next one.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

I'm not sure that there's anything that I've learned. What we've been trying to do, at least to buffer ourselves from a downturn that would affect advertising, is to lessen our reliance on advertising, and that's clear at ESPN, where subscription fees make up the majority of the revenue that ESPN brings in. The Disney Channel is not advertiser supported at all.

A variety of these efforts that we've talked about today to move content onto these new platforms, while they will create opportunities for advertisers, are not necessarily advertiser based, meaning we can, we believe, succeed on these platforms with relatively modest advertising and not really fall prey to a downturn in that regard.

Clearly, the business that's the most exposed is our broadcast business, and some of the work that's been done there to, for instance, move ABC shows onto the Internet to try to create more value for the advertiser, and Anne gave those statistics, which are pretty stunning, not just the demographics but the recall that people have of the advertising that's in these shows, that's another way to do it.

On the theme park side, we run a pretty tight ship, no pun intended. We have managed, when we experience an economic downturn to address a variety of things, some very direct cost-related issues, the way we market, another way. Beyond basically paying attention constantly to the bottom line and maintaining the ability to be flexible, there's not that much that we can do.

We realize that we're exposed to a variety of different trends and how cyclical they are in terms of global travel. Again, the best approach is to be nimble and to be able to react pretty quickly by reducing capacity because the demand isn't there or reducing costs accordingly.

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

And obviously the cyclicality of the different businesses aren't fully correlated, either, so we've got different business cycles that we're exposed to.

Audience Member

Thanks, Bob, actually I was hoping you can maybe talk about the evolution of TV stations, as you see it. Do you foresee them having more than one revenue stream down the line? Do you see them having the potential to take advantage of their local presence maybe more so than they are currently, and/or do you foresee them being a long-term part of your asset mix?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Walter Liss, who runs our TV stations and does a great job doing so, as the numbers suggest, is not here with us, but he is spending a lot of time with his group basically figuring out ways to put the great brands that we have in local television onto the Internet and to ultimately monetize them.

We've been relatively conservative in terms of our investment in that direction, but somewhat effective already in terms of creating pretty good, robust websites for these stations and basically extending the brand. And we don't know ultimately how far we'll go, but we are hearing from a lot of local advertisers that they want us to create opportunities for them and to tie those opportunities basically into their broadcast spend.

I think that a good local news brand has the ability to succeed beyond just being a broadcast brand, that it can move onto the Internet, particularly with things like traffic and weather, sports to a probably lesser extent because there's ESPN. Not going to forget you this time, George. And we clearly have great brands in that regard, and so we're going to give it a shot. How far it will go, I don't know.

We have not bought any television stations as a company since the mid '90s. I think Flint and Toledo we bought in 1994 before the Disney acquisition, actually, and there are a couple of reasons for that. One is that we haven't seen prices that we really thought were justifiable, and we're somewhat concerned about our exposure in that direction and so we're perfectly content running ten stations and eight of them in larger -- well, I guess not eight in large markets, but six or seven in large markets, depending on how you count them, and being number one in most of those markets, and that's been a great business for us, relatively modest in growth, but great free cash flow and certainly great margins and we look at all of our assets all of the time with an eye toward delivering value to our shareholders.

I don't think it would be proper for me to speculate one way or the other as to what might become of those assets down the road. You shouldn't read into that. We love being in the business the way we are is probably the best way to put it, with the management that we have and that management is also very deep, and goes beyond Walter. We have some great station managers. Just look at the numbers in November and really get into them, it's amazing the difference in some of these markets, big markets, New York, Chicago, LA, Philadelphia, between ourselves and our competition.

Audience Member

Yes, I have two questions. One on the theme parks, the blue sky ideas which Jay Rasulo talked about. The question is how do you protect against the dilution of the brand, potentially, by building parks in smaller cities? And obviously Disney is known as a destination park, but the idea of expanding into perhaps being a regional park could create potential concerns with domestic visitors especially. So how do you address that potential concern?

And, separately, on the film side, could you talk about perhaps why the studio had not been as interested as some of the other major studios in the idea of financing, perhaps a slate of films with the hedge funds of private equity. What is your philosophy on that idea?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Jay, we probably should both answer the first question, and I'll start by saying that Jay's statistics in terms of vacation spend, vacation patterns, are pretty interesting. We only have a really small part of that market. What's also interesting is that while we attract a lot of people, about 100 million people -- not necessarily different people, but 100 million people came through our gates at all of our parks last year. Not all of them come back, though.

They go off and they do other things on vacation, yet they have a great experience when they come to Disney. So we're not only trying to bring them back here more often, but if they don't come back here, we're trying to create opportunities for them when they vacation with their family to have a Disney vacation that isn't necessarily a traditional theme park vacation, which is what we did I think beautifully with our cruise ships.

It's probably the best example of that, a business that has not only been good from a brand perspective, but it's had really good returns on invested capital, and that's why we're looking at expanding. I don't think we're going to end up with a template that has hundreds of small theme parks, or even dozens of them.

We just think that there are a few opportunities, both in terms of the concept, in terms of the marketplace, that would be interesting in terms of us giving people who may never go to a Disney theme park an opportunity for a Disney vacation, or people who have been to a Disney theme park to have an opportunity to experience Disney in some other fashion.

Because I think we'll be modest in terms of our approach, I don't believe that we're really putting our brand at risk in terms of diluting it. Jay, do you want to chime in?

Jay Rasulo – *Chairman, Walt Disney Parks and Resorts*

Yes, I think that the markets that we've been looking at for something that you and I would call a theme park, most of the products we've been looking at have been far smaller, immersive, but not competitive with a theme park visit. The few markets that we have been looking at have such little visitation, long-haul visitation to our parks that are typically not close by, that I think the ability to get people into our franchise in an intense way is probably a heck of a lot more valuable than to think about the dilution that that will have to our other destinations.

Needless to say, I don't think we can do anything that dilutes the value of our brand. They all have to be, even if it's a half-day experience, an extremely high-quality experience.

So all regional theme parks are so few and far between that I don't think there's a risk of that being brand dilutive for us.

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

Well, cannibalization is interesting because we choose our markets so that they minimalize cannibalization. Probably the best market we've ever seen to test the hypothesis of alternative theme parks being cannibalizing is the UK. The UK is a huge draw market for us to Walt Disney World and is Disneyland Resorts Paris's second-largest market after France and accounts for 22% of their business.

And one could have imagined that we could have split that market when we opened, but, in fact, up until the U.S. started to see a decline in visitation for the U.S., that market continued to grow for both of those destinations. And the reason for that was that no one in the UK considered a visit to Disneyland Resort Paris, which was typically a long weekend, as a substitute for a long-haul vacation to Walt Disney World, which was typically a two-week vacation.

So they actually consumed both products under different usage occasions, and quite often the same people.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

And how many people -- a good statistic. How many people who have gone on the cruise have actually visited one of our parks?

Audience Member

That's an excellent question, but it's very, very high. We thought, in fact, when we built the cruise line, that we'd do three-day and four-day itineraries that would be tradeoffs to vacations to Walt Disney World and build on them. In fact, what we do is get the normal frequency of visitation to Walt Disney World and in one of the off years they take the cruise line. So it's actually been additive. That's why one of our ships is on a seven-day itinerary and not three and four.

So our experience has been pretty good if we can offer a different usage occasion or, like the cruise line, a very differentiated experience that's still very Disney. So that's really the template that we're looking at moving forward.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Tom, do you want to answer the film financing, and we'll take two more questions.

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

Yes, we look at film financing all the time, and Christine McCarthy, our Treasurer, and Alan Bergman are our chief collaborators on this. Our approach, and they can add to this if they'd like, but our approach is pretty simple. We're only going to do a film financing if it's actually a true risk-sharing vehicle. In other words, I've seen film financings done that amounted, in my estimation, to expensive debt, and we have a plenty strong balance sheet to finance these things, so we're not looking for expensive debt.

We have one in place that I think is a very good structure. It does share risk. Our appetite for those going forward will be impacted by, first of all, the market flows hot and cold for the terms in which those film financings are offered, so it has to do with where the market is. But, also, our primary motivation right now is pursuant to what Alan just talked about earlier.

We're really focused on driving most of our investment to the Disney brand where we think we can earn a very attractive return. We have to think long and hard about what portion of those returns we give up in that context.

We've brought our film investment down to a level that we're actually very comfortable carrying ourselves for now. It doesn't mean we won't do film financing in the future. We may, but we're going to be selective.

Alan or Christine, anything to add to that? Okay.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Two more questions.

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

Number one.

Audience Member

Question on the TV side. You've had more success with TV product the last couple of years than I can remember in a long time at this company. Traditionally, Warner and Fox had been the two leaders in terms of TV production. Are you planning on increasing your investment and producing more shows? And tied into that, I find it kind of interesting that you said that there was 30 million TV downloads on iTunes and only 1.5 movie downloads.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Fifty million TV. And a million and a half films -- because, first of all, movies launched a year later than television and there were only 100 movies initially available, and they were all ours. Whereas television, there's hundreds and hundreds. And it's more expensive for films.

The first part of your question, in terms of TV production, no, we don't have specific plans to increase. If Steve McPherson, who is sitting a few rows in front of you, were to tell you about his development this year, you'd discover that there's a real mix of shows from call it "in house", the newly named ABC Studios, and from third parties. Because his job is to put the best shows on his schedule. There is, as you'd expect, given the way the business has shaped up over the last few years, a significant amount of activity between studios that are owned by companies that own the networks and the networks.

In other words, most of the shows that these studios are making are going to their own network, which is I guess mostly the case with us, although, again, we have a blend in terms of what we put on the network from the outside. We have been extremely fortunate over the last number of years, four, five, or three or four, to own some of the most successful shows on television here in the United States and around the world.

Steve ran, actually, Touchstone Productions before he occupied his current job and had a rather strong hand in developing *Grey's Anatomy* and *Desperate Housewives* and *Lost*, as a for instance, and we've had the right people and we've been really fortunate.

There's a fair amount of investment there though, and I like where we are right now. I think it's right in terms of our balancing risk and investment. If we have to invest more because we've come up with better ideas or better shows or better talent, we will, but we're pretty comfortable.

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

One more, Doug?

Audience Member

So I think the only question not asked is about M&A. I mean, you've been cleaning up with the sale of E! and a few other things. You've got a few JVs left, both ownerships and ESPN and your ownerships and others. And also it sounds from what you're trying to do internationally, there might be pieces that fit in with what you need to do to build stronger presence, especially in these emerging markets. Can you just talk about deployment of capital and your thoughts on the JVs?

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Well, we talk a lot about the JVs in terms of their future value creation possibilities. And we have a really good partner in Hearst, who's been our partner for a long time, certainly on the ESPN side and on the Lifetime and A&E side. We haven't come up with the right formula yet to really figure out if there's a consolidation play of some sort or a change in the ownership that might change the direction or the course going forward.

But we're open and we talk all the time about it and I can't really give you any prediction on that one, which way that will go. Although those have delivered a fair amount of free cash flow to us over the last decade and we certainly like that. And we do have some say in how they're managed, although they're managed by boards and committees, whereas for E we had really no say whatsoever. There, the investment was somewhat modest in nature and we didn't really see where it was going from our perspective. And we had a willing buyer, in that case, in Comcast.

You need a willing buyer in many respects, too. So we'll continue to have discussions. In terms of other potential acquisitions, we answer that question the same way all the time. We certainly have a balance sheet to enable us to acquire, but we are relatively conservative fiscally when it comes to acquisitions. We have certainly no feeling as a company that we have to get bigger. We have all the scale that we need, quite frankly, and so we're not looking to acquire to get bigger.

The Disney name and the ESPN name and the ABC name, it varies from market to market, but particularly the Disney name gives us such access in these markets that we don't really need to be bigger to gain access onto platforms or whatever. But we'll continue to look opportunistically, particularly as it relates to new media versus what I'll call traditional media to see whether there's something that is a really good strategic fit, perhaps something that owns underlying technology that would enable us to grow some of our current businesses in new technology, ESPN, ABC.

The Pixar acquisition is obviously significant and I would say on that one, while I guess many could say it's pricey, was from a strategic perspective about as perfect a fit as you could get, and the issue that we had with animation and the need to have animation be strong and vibrant and create value long term was so acute at the company that that made perfect sense to us.

So I think just looking at the slate and listening to John describe animation is ample proof of that.

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

All right, just two housekeeping items. Number one, I wanted to make sure I thanked Teri Klein, Tammy Benefield, Helene Dina and the rest of the IR team who obviously do all the work and the design, also our hosts at Walt Disney World, both technically and the resort who make it so great and it's a good reminder of just how strong the guest service ethics is here.

Six forty-five, we're going to be over at the Atlantic Dance Hall, which is a short walk along the boardwalk from here. We'll have dinner. Dinner tonight is with the Disney executives, so we've got some assigned seating. So we've spread people out so everybody's got a chance to talk to someone from Disney. And then there is some entertainment and perhaps even poker, I understand. For those listening on the Webcast, it's not real money. It's a play game.

Thank you all, very much.

Bob Iger –*President and Chief Executive Officer, The Walt Disney Company*

Thank you.

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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 financial measures to equivalent GAAP financial measures are available on Disney's Investor Relations website.