2Q07 Preview

Chart 1: DHC 2Q Preview

	2Q06PF	2Q07EPF	Y/Y %
DCI revenue			
Advertising	304	331	9%
Distribution Revenue	330	368	12%
Other	56	57	2%
Revenue	**$690**	**$757**	**10%**
DCI by segment			
US Networks	$455	$494	9%
Int'l Networks	$207	$234	13%
Com, Ed & Other	$28	$28	0%
Revenue	**$690**	**$757**	**10%**
Operating expenses	(228)	(265)	16%
SG&A	(285)	(278)	-2%
US Networks	$193	$203	5%
Int'l Networks	$25	$27	6%
Com, Ed & Other	($40)	($16)	-61%
EBITDA	**$178**	**$214**	**20%**
Ascent			
Creative Services	$104	$106	2%
Network Services	$62	$63	2%
Revenue	**$166**	**$169**	**2%**
Creative Services	12	20	64%
Network Services	11	17	58%
Corporate & other	(12)	(22)	-75%
EBITDA	**$10**	**$15**	**45%**

Source: Merrill Lynch estimates, company data
Note: PF for Cox transaction, Q2 forecast does not include potential restructuring charge.

We project Discovery revenue to grow 10% Y/Y in 2Q, driven by an estimated 9% growth at the US Networks and 13% at International. US Networks revenue growth will benefit from continued strong ratings driven by the network's highly-successful "Planet Earth" series, cable's highest-rated natural history program. In addition, the "Planet Earth" DVD has become Discovery Channel's top-selling documentary title, providing additional upside to 2Q07 and 2007FY results.

International revenue growth is projected to moderate vs last year due to the impact of the company's $196mn payment in January 2007 to BSkyB attributed to an affiliate agreement renewal. The payment will be amortized as a contra-revenue account over five years at ~$39mn/yr. The negative impact will be the greatest to 2007 Y/Y International growth due to the unfavorable comparison to 2006, which did not include the additional amortization. Payments of this magnitude to a multichannel operator to renew mature fully distributed networks are considered extraordinary and it is not known given the company's limited disclosure if there was additional consideration beyond the 5 year renewal agreement. We believe this is a "true up" in value created for the life of the prior contract and extension of the new contract.

We believe there is substantial value in the Discovery brand outside the US as well as potential for growth. Given the increasing sophistication of international pay-tv markets, it would not surprise us if Discovery were ultimately sold to a strategic buyer, eg another large cable network operator in order to grow scale outside the US.

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Cox transaction review

On May 14, Discovery Communications completed its previously announced transaction with Cox Communications, in which Cox redeemed its 25% interest in DCL for $1.28bn in cash and 100% of the interest in the Travel Channel (est value $880mn-1.1bn) and Travel Channel.com. The only change involved Discovery's museum audio tour business, Antenna Audio, which initially was included in the transaction but later excluded by mutual agreement. DHC now owns 66.7% of Discovery and A/N holds the remaining 33%. However, although DHC would own the majority of Discovery, the company will still account for Discovery as an equity investment as most material governance and budgetary matters require an 80% vote, effectively giving A/N blocking rights.

We estimate post transaction net debt for Discovery of $3.6bn with a net leverage ratio of 4.3x. We estimate theoretical value for DHC at low to mid $20s/share based on our sum-of-the-parts and DCF valuation. We anticipate the Cox transaction resulting in greater transparency to investors will be a significant positive, as, in our view, the current lack of information at DHC has been a negative for the stock until the very recent past (when more information has been released at various presentations). The Cox transaction may also increase the likelihood that Advance/Newhouse contributes its post-closing 33% interest in Discovery into publicly traded DHC or alternatively exits Discovery in a similar fashion as Cox, which could be a material positive for DHC.

Investment Conclusion

We believe DHC's shares are fairly valued at current trading prices and we therefore are maintaining our Neutral rating on DISCA. However, we note ratings continue to improve this season, the advertising market has been particularly strong in the scatter market and the company is undergoing a thorough review of its operations and cost structure, with estimate changes biased to the upside for US networks.

Chart 2: Discovery Communications EBITDA projections

DISCOVERY	[redacted]		PF						PROJECTED			
	CY 2004	CY 2005	CY 2006	3/31/07	6/30/07	9/30/07	12/31/07	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
Advertising	1,134	1,188	1,164	263	331	396	360	1,250	1,357	1,479	1,619	1,746
Growth	12%	5%	-3%	7%	9%	9%	8%	8%	9%	9%	10%	10%
Distribution Revenue	976	1,199	1,353	346	368	386	391	1,492	1,672	1,853	2,065	2,281
Growth	31%	23%	13%	6%	12%	12%	12%	10%	12%	11%	11%	11%
Other	255	286	334	68	67	62	184	372	407	449	497	553
Growth	8%	12%	17%	47%	2%	3%	8%	11%	9%	10%	11%	11%
Total Revenue	2,365	2,672	2,841	678	757	744	935	3,114	3,436	3,781	4,171	4,621
US Networks	1,605	1,743	1,754	435	494	463	517	1,909	2,071	2,252	2,453	2,682
Int'l Networks	583	738	879	208	234	251	292	985	1,124	1,260	1,417	1,598
Com, Ed & Other	177	191	208	34	28	30	126	219	241	269	301	340
Total Revenue	2,365	2,672	2,841	678	757	744	935	3,114	3,436	3,781	4,171	4,621
OpEx	(848)	(980)	(1,051)	(237)	(265)	(261)	(337)	(1,099)	(1,203)	(1,323)	(1,460)	(1,617)
% of Revenues	36%	37%	37%	35%	35%	35%	36%	35%	35%	35%	35%	35%
SG&A	(856)	(1,005)	(1,118)	(276)	(278)	(261)	(352)	(1,167)	(1,240)	(1,320)	(1,411)	(1,502)
% of Revenues	36%	38%	39%	41%	37%	35%	38%	37%	36%	35%	34%	33%
US Networks	600	643	676	165	203	190	207	764	826	907	998	1,102
Int'l Networks	97	107	116	19	27	38	38	122	157	202	256	328
Com, Ed & Other	(34)	(63)	(121)	(20)	(16)	(5)	1	(39)	7	28	47	71
Total EBITDA	663	687	671	165	214	223	246	848	993	1,137	1,300	1,502
US Networks	18.8%	8.8%	0.6%	8.6%	8.7%	8.7%	9.5%	8.9%	8.5%	8.7%	8.9%	9.3%
International Networks	23.0%	26.6%	19.1%	7.5%	13.0%	13.0%	14.0%	12.1%	14.1%	12.1%	12.4%	12.8%
Commerce, Ed & Other	4.4%	7.9%	8.7%	50.0%	0.0%	0.0%	0.0%	5.5%	10.0%	11.5%	12.0%	13.0%
Total Rev Growth	18.6%	13.0%	6.3%	9.7%	9.6%	9.7%	9.4%	9.6%	10.3%	10.0%	10.3%	10.8%
US Networks	23.3%	7.2%	5.0%	16.5%	5.1%	6.5%	22.5%	13.1%	8.3%	9.8%	10.0%	10.4%
Int'l Networks	41.8%	10.7%	8.4%	-37.4%	6.3%	4.2%	59.7%	4.9%	28.9%	28.1%	26.5%	28.4%
Commerce, Ed & Other	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EBITDA Growth	30.3%	3.7%	-2.4%	24.5%	20.4%	24.2%	35.8%	26.4%	17.1%	14.5%	14.3%	15.5%
US Networks	37.4%	36.9%	38.5%	38.0%	41.0%	41.0%	40.0%	40.0%	40.0%	40.3%	40.7%	41.1%
Int'l Networks	16.6%	14.6%	13.2%	9.4%	11.5%	15.0%	13.0%	12.4%	14.0%	16.0%	18.0%	20.5%
Commerce, Ed & Other	-19.4%	-33.1%	-58.5%	-58.5%	-55.0%	-15.0%	1.0%	-17.8%	3.0%	10.5%	15.5%	21.0%
EBITDA Margin	28.0%	25.7%	23.6%	24.3%	28.3%	29.9%	26.3%	27.2%	28.9%	30.1%	31.2%	32.5%

Source: Merrill Lynch estimates, company data
Note: PF for Travel Channel sale as of 1Q06

Chart 3: Discovery Communications Income Statement

	[redacted]		PF						PROJECTED			
Discovery	CY 2004	CY 2005	CY 2006	3/31/07	6/30/07	9/30/07	12/31/07	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
Revenues	2,365	2,672	2,841	678	757	744	935	3,114	3,436	3,781	4,171	4,621
% Change	18.6%	13.0%	6.3%	9.7%	9.6%	9.7%	9.4%	9.6%	10.3%	10.0%	10.3%	10.8%
Operating expenses	(846)	(980)	(1,051)	(237)	(265)	(261)	(337)	(1,099)	(1,203)	(1,323)	(1,460)	(1,617)
SG&A	(856)	(1,005)	(1,118)	(276)	(278)	(261)	(352)	(1,167)	(1,240)	(1,320)	(1,411)	(1,502)
EBITDA	663	687	671	165	214	223	246	848	993	1,137	1,300	1,502
% Change	30.3%	3.7%	-2.4%	24.5%	20.4%	24.2%	35.8%	26.4%	17.1%	14.5%	14.3%	15.5%
Margin	28.0%	25.7%	23.6%	24.3%	28.3%	29.9%	26.3%	27.2%	28.9%	30.1%	31.2%	32.5%
Equity-based comp	(72)	(49)	(39)	(12)	(13)	(13)	(13)	(50)	(50)	(50)	(50)	(50)
D&A	(129)	(123)	(134)	(35)	(34)	(34)	(34)	(137)	(140)	(143)	(146)	(148)
Restructuring	0	0	0	(11)	0	0	0	(11)	0	0	0	0
Gain sale of patents	22	0	0	0	0	0	0	0	0	0	0	0
Operating income	484	515	498	107	167	176	199	649	803	945	1,105	1,303
Interest expense	(167)	(185)	(194)	(45)	(50)	(49)	(44)	(187)	(183)	(179)	(176)	(172)
Gains (Losses) Derivatives	46	22	23	1	0	0	0	1	0	0	0	0
Minority	(55)	(44)	(2)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(3)	(3)
Other	2	14	9	2	0	0	0	2	0	0	0	0
Other inc (exp)	(7)	(7)	29	2	(1)	(1)	(1)	0	(3)	(3)	(3)	(3)
Taxable Income	310	323	332	65	117	127	155	463	617	762	926	1,128
Tax Rate	45.8%	50.3%	46.0%	45.9%	40.0%	40.0%	40.0%	40.8%	40.0%	40.0%	40.0%	40.0%
Tax (exp) benefit	(142)	(162)	(153)	(30)	(47)	(51)	(62)	(189)	(247)	(305)	(370)	(451)
Net earnings	168	160	179	35	70	76	93	274	370	457	555	677
Discontinued Ops			28	8	0	0	0	8	0	0	0	0
Attributable NI	84	80	104	22	47	51	62	181	247	305	370	451

Source: Merrill Lynch estimates, company data
Note: PF for Travel Channel sale as of 1Q06

Chart 4: DHC Income Statement

Discovery Holdings								PROJECTED				
	CY 2004	CY 2005	CY 2006	3/31/07	6/30/07	9/30/07	12/31/07	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
Creative Services	405	422	418	111	106	103	115	434	448	462	476	490
% Change		4%	-1%	12%	2%	1%	1%	4%	3%	3%	3%	3%
Network Services	226	273	270	63	63	69	86	282	289	298	306	316
% Change		21%	-1%	15%	2%	2%	1%	4%	3%	3%	3%	3%
Ascent Revenue	**631**	**695**	**688**	**174**	**169**	**172**	**201**	**716**	**737**	**759**	**782**	**806**
% Change	24.7%	10.0%	-0.9%	13.2%	2.0%	1.4%	1.0%	4.1%	3.0%	3.0%	3.0%	3.0%
Operating expenses	(380)	(446)	(454)	(118)	(108)	(110)	(129)	(465)	(472)	(486)	(501)	(516)
% of Sales	60.2%	64.2%	66.1%	67.9%	64.0%	64.0%	64.0%	64.9%	64.0%	64.0%	64.0%	64.0%
% Change	26.3%	17.2%	1.9%	20.9%	-1.3%	-1.1%	-5.3%	2.3%	1.5%	3.0%	3.0%	3.0%
SG&A	(154)	(170)	(177)	(40)	(46)	(47)	(52)	(185)	(199)	(205)	(211)	(218)
% of Sales	24.3%	24.5%	25.7%	23.3%	27.0%	27.0%	26.0%	25.8%	27.0%	27.0%	27.0%	27.0%
% Change	17.8%	10.7%	3.9%	-5.0%	0.0%	9.6%	13.5%	4.6%	7.7%	3.0%	3.0%	3.0%
Creative Services	73	71	53	14	20	20	22	78	85	89	93	96
% Change		-3%	-26%	9%	64%	107%	24%	45%	12%	4%	4%	3%
Margin		17%	13%	13%	19%	19%	19%	18%	19%	19%	20%	20%
Network Services	63	56	50	8	17	18	22	65	67	69	74	76
% Change		-11%	-11%	-13%	58%	14%	68%	32%	3%	3%	7%	3%
Margin		20%	18%	13%	26%	26%	26%	23%	23%	23%	24%	24%
Corporate and other	(38)	(48)	(43)	(7)	(22)	(23)	(24)	(76)	(86)	(89)	(96)	(99)
EBITDA	**97**	**79**	**59**	**15**	**16**	**16**	**20**	**66**	**66**	**68**	**70**	**73**
Margin	15.4%	11.3%	8.5%	8.8%	9.0%	9.0%	10.0%	9.2%	9.0%	9.0%	9.0%	9.0%
% Change	30.2%	-19.2%	-25.3%	15.1%	45.0%	-2.7%	6.0%	12.7%	0.3%	3.0%	3.0%	3.0%
Stock compensation	(3)	(10)	(2)	(1)	(1)	(1)	(1)	(4)	(4)	(4)	(4)	(4)
D&A	(78)	(76)	(68)	(16)	(20)	(20)	(24)	(80)	(80)	(80)	(80)	(80)
Restructuring/Other	0	(0)	(106)	0	0	0	0	0	0	0	0	0
Operating income	17	(8)	(117)	(1)	(6)	(5)	(5)	(18)	(18)	(16)	(14)	(11)
% Change	NM	-149.3%	NM	-58.0%	-7.5%	-94.4%	-50.4%	-84.8%	-0.9%	-11.3%	NM	NM
Interest (Exp)/Income	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	4	12	9	0	0	0	9	0	0	0	0
Discovery Attributable NI	84	80	104	22	47	51	62	181	247	305	370	451
Taxable Income	101	76	(2)	30	41	45	57	172	229	289	357	440
Tax Rate	34.6%	64.4%		31.0%	40.0%	40.0%	40.0%	38.4%	40.0%	40.0%	40.0%	40.0%
Tax (exp) benefit	(35)	(49)	(44)	(9)	(16)	(18)	(23)	(66)	(92)	(116)	(143)	(176)
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Earnings, adjusted	66	27	(46)	20	25	27	34	106	138	174	214	264
Extraordinary	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	**66**	**27**	**(46)**	**20**	**25**	**27**	**34**	**106**	**138**	**174**	**214**	**264**
Basic Shares	280	280	280	280	280	280	280	280	280	280	280	280
Diluted Shares	280	280	280	280	280	280	280	280	280	280	280	280
Basic EPS	$0.24	$0.10	($0.16)	$0.07	$0.09	$0.10	$0.12	$0.38	$0.49	$0.62	$0.76	$0.94
Diluted EPS	$0.24	$0.10	($0.16)	$0.07	$0.09	$0.10	$0.12	$0.38	$0.49	$0.62	$0.76	$0.94
Adjusted Basic EPS	**$0.24**	**$0.10**	**($0.16)**	**$0.07**	**$0.09**	**$0.10**	**$0.12**	**$0.38**	**$0.49**	**$0.62**	**$0.76**	**$0.94**
Adjusted Diluted EPS	**$0.24**	**$0.10**	**($0.16)**	**$0.07**	**$0.09**	**$0.10**	**$0.12**	**$0.38**	**$0.49**	**$0.62**	**$0.76**	**$0.94**

Source: Merrill Lynch estimates, company data

Analyst Certification

I, Jessica Reif Cohen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

iQmethod℠ Measures Definitions

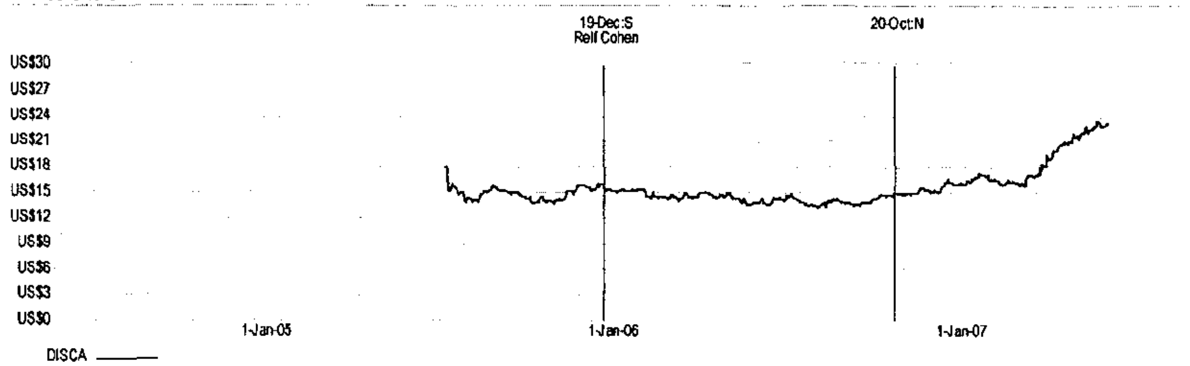
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod℠ is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

Important Disclosures

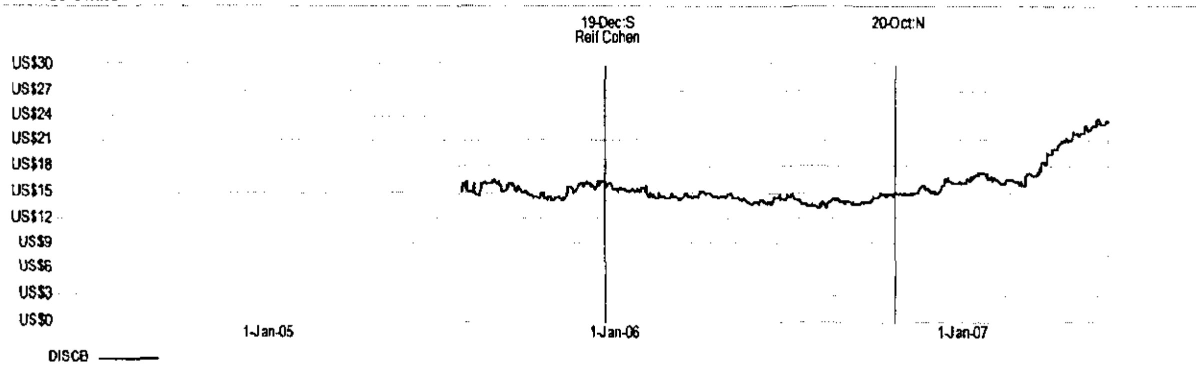
DISCA Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of May 31, 2007 or such later date as indicated.

DISCB Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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Investment Rating Distribution: Media & Entertainment Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	37.04%	Buy	16	29.63%
Neutral	94	58.02%	Neutral	20	23.53%
Sell	8	4.94%	Sell	2	25.00%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

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MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Discovery Hold.
MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis: Discovery Hold.
The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Discovery Hold.
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*** Slip Sheet ***

Discovery Holding Company
Third Quarter Earnings Release

Englewood, Colorado – On November 9, 2005, Discovery Holding Company ("DHC") filed its Form 10-Q with the Securities and Exchange Commission for the three months ended September 30, 2005. The following release is being provided to supplement the information provided to investors in DHC's Form 10-Q as filed with the SEC.

On July 21, 2005, Liberty Media Corporation ("Liberty") distributed all the shares ("the Spin-Off") of its newly formed subsidiary, Discovery Holding Company, to Liberty Media shareholders. Immediately following the Spin-Off, DHC's assets were comprised of its 100% ownership interest in Ascent Media Group LLC ("Ascent Media" or "AMG"), a 50% ownership interest in Discovery Communications, Inc. (DCI) and $200 million in cash.

As a supplement to DHC's consolidated statements of operations, the following is a presentation of financial information on a stand-alone basis for the two privately held entities owned by or in which DHC held an interest at September 30, 2005:

- Ascent Media, a consolidated, wholly-owned subsidiary; and
- DCI, a 50% owned equity affiliate.

Unless otherwise noted, the following discussion compares financial information for the three months ended September 30, 2005 to the same period in 2004. Please see page 6 of this press release for the definition of operating cash flow and a discussion of management's use of this performance measure. Schedule 1 to this press release provides a reconciliation of DHC's consolidated segment operating cash flow for its operating segments to consolidated earnings before income taxes. Schedule 2 to this press release provides a reconciliation of the operating cash flow for AMG and DCI to that entity's operating income for the same period, as determined under GAAP. Certain prior period amounts have been reclassified for comparability with the 2005 presentation.

<u>Ascent Media</u>

Ascent Media's revenue increased 11% to $168 million while operating cash flow decreased 22% to $18 million. The increase in revenue was primarily due to increases at the creative services group and the network services group. The increase in revenue at the creative services group was due to more commercial advertising production and feature film projects for both post production and sound services in the U.S. partially offset by continued weakness in commercial and feature film services markets in the U.K. The increase in revenue at the network services group was due to a higher number of large engineering and systems integration projects and revenue related to the LPC acquisition partially offset by lower renewal rates on certain ongoing broadcast services contracts.

Ascent Media's operating expenses increased 16%. As a percent of revenue, cost of services increased from 60% to 65%. These increases are due primarily to the network services and media management groups. In the network services group, the mix of revenue shifted to a higher percentage of systems engineering and integration projects, which have lower margins than broadcast services and satellite operations. In addition, competitive pressures resulted in lower rates as contracts are renewed and new business is acquired. Media management services group cost of services increased at a faster rate than revenue as the group has increased spending on development of digital technologies and new services. Additionally, media management's projects have become increasingly more integrated, with complex work flows requiring higher levels of production labor and project management. This increase in labor costs, combined with investment in new technologies, resulted in higher cost of services and decreasing operating cash flow margin.

Discovery

The presentation below presents information regarding 100% of DCI's revenue, operating cash flow and other selected financial statement metrics even though DHC only owns 50% of the equity of DCI and accounts for it as an equity affiliate. Please see page 4 for a discussion of why management believes this presentation is meaningful to investors.

DCI's revenue of $639 million and operating cash flow of $171 million are 15% and 6% ahead of the same period a year ago, respectively.

U.S. Networks revenue increased by 11% due to increases in subscriber fees and advertising revenue. Net subscriber fees increased 16% as the U.S. Networks had a 14% increase in paying subscribers combined with contractual rate increases at most networks. Free viewing periods related to a number of U.S. networks, principally networks that are carried on the digital tier, began expiring in 2004 and DCI is now recognizing subscriber fees for those networks. Net subscriber fee increases were also attributable to lower launch support amortization, a contra-revenue item, as the result of extensions to certain affiliation agreements. Net advertising revenue increased 6% as higher advertising sell-out and rates were partially offset by lower audience delivery at certain networks. Operating expenses increased 12% due to an increase in programming and marketing expenses across U.S. Networks. Operating cash flow increased by 9% to $165 million.

International Networks revenue increased 24% due to increases in both subscriber fees and advertising revenue and favorable exchange rates. Net advertising revenue increased 25% primarily due to higher viewership in the U.K. and an increased subscriber base in the UK and Europe. Net subscriber fees increased by 24% due to increases in paying subscription units in Europe and Asia and international joint venture channels combined with contractual rate increases in certain markets. Operating expenses increased 26% due to the previously announced investment in its Lifestyles category designed to develop and grow that market opportunity. Operating cash flow increased 15% due to the increased revenue. Excluding the effects of exchange rates, revenue increased 23% and operating cash flow increased 23%.

Revenue in the Commerce, Education and Other division increased by 15%, principally as a result of a 38% increase in revenue at Discovery Education and a 10% increase in average sales per store offset by a 7% decrease in the average number of stores. Discovery Education revenue increased due to acquisitions that were made over the past year and an increase in the number of schools purchasing its products and services. The operating cash flow loss in the Commerce, Education and Other division increased by $8 million, or 50%, primarily due to the previously announced investment in Discovery Education.

DCI's outstanding debt balance was $2.7 billion at September 30, 2005.

DCI – 2005 Guidance Lowered

The following revised estimates assume, among other factors, previously reported performance shortfalls primarily on TLC in the U.S., continued increase in the amount of advertising dollars spent with cable networks as compared to broadcast networks, stabilized ratings at the domestic networks, investment in the international lifestyles and education initiatives, and a stable national retail environment.

For full year 2005 versus 2004, DCI consolidated operating results are expected to increase as follows:

- Revenue by low to mid teens %.
- Operating cash flow by mid-single digits %.
- Operating income by approximately 10%.

DHC disclaims any obligation or undertaking to disseminate any updates to the foregoing guidance to reflect any change in DHC's expectations with regard thereto.

OUTSTANDING SHARES AND LIQUIDITY

At September 30, 2005, there were approximately 280.2 million outstanding shares of DISCA and DISCB and 4.9 million shares of DISCA and DISCB reserved for issuance pursuant to warrants and employee stock options. At September 30, 2005, there were 782,305 options that had a strike price that was lower than the closing stock price. Exercise of these options would result in aggregate proceeds of approximately $9.7 million. At September 30, 2005, DHC had a cash balance of $228 million and no debt.

Certain statements in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the operating businesses of DHC included herein or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others: the risks and factors described in the publicly filed documents of DHC, including the most recently filed Form 10-Q of DHC; general economic and business conditions and industry trends including in the advertising and retail markets; spending on domestic and foreign advertising; the continued strength of the industries in which such businesses operate; continued consolidation of the broadband distribution and movie studio industries; uncertainties inherent in proposed business strategies and development plans; changes in distribution and viewing of television programming, including the expected deployment of personal video recorders and IP television and their impact on television advertising revenue and home shopping networks; increased digital television penetration and the impact on channel positioning of our networks; rapid technological changes; future financial performance, including availability, terms and deployment of capital; availability of qualified personnel; the development and provision of programming for new television and telecommunications technologies; changes in, or the failure or the inability to comply with, government regulation, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings; adverse outcomes in pending litigation; changes in the nature of key strategic relationships with partners and joint ventures; competitor responses to such operating businesses' products and services, and the overall market acceptance of such products and services, including acceptance of the pricing of such products and services; and threatened terrorist attacks and ongoing military action, including armed conflict in the Middle East and other parts of the world. These forward-looking statements speak only as of the date of this Release. DHC expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in DHC's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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SUPPLEMENTAL INFORMATION

As a supplement to DHC's consolidated statements of operations, the following is a presentation of quarterly financial information on a stand-alone basis for the two privately held entities (Ascent Media Group LLC and Discovery Communications, Inc.) owned by or in which DHC held an interest at September 30, 2005.

Please see page 6 for the definition of operating cash flow (OCF) and Schedule 2 at the end of this document for reconciliations for the applicable periods in 2005 and 2004 of operating cash flow to operating income, as determined under GAAP, for each identified entity.

The selected information for DCI below presents 100% of the revenue, operating cash flow, operating income and other selected financial metrics for DCI even though DHC owns only 50% of DCI and accounts for it as an equity affiliate. This presentation is designed to reflect the manner in which DHC's management reviews the operating performance of its investment in DCI. It should be noted, however, that the presentation is not in accordance with GAAP since the results of operations of equity method investments are required to be reported on a net basis. Further DHC could not, among other things, cause DCI to distribute to DHC our proportionate share of the revenue or operating cash flow of DCI.

The selected financial information presented for DCI was obtained directly from DCI. DHC does not control the decision-making processes or business management practices of DCI. Accordingly, DHC relies on DCI's management to provide accurate financial information prepared in accordance with generally accepted accounting principles that DHC uses in the application of the equity method. The above discussion and following analysis of DCI's operations and financial position has been prepared based on information that DHC receives from DCI and represents DHC's views and understanding of their operating performance and financial position based on such information. DCI is not a separately traded public company, and DHC does not have the ability to cause DCI's management to prepare their own management's discussion and analysis for our purposes. Accordingly, we note that the material presented in this publication might be different if DCI's management had prepared it. DHC is not aware, however, of any errors in or possible misstatements of the financial information provided to it by DCI that would have a material effect on DHC's consolidated financial statements.

QUARTERLY SUMMARY

(amounts in millions)	3Q05	2Q05	1Q05	4Q04	3Q04
ASCENT MEDIA GROUP LLC (100%)					
Revenue	$ 168	178	174	173	152
OCF	$ 18	21	21	27	23
Operating Income (Loss)	$ 1	(3)	4	2	4
DISCOVERY COMMUNICATIONS, INC. (50.0%) (1)					
Revenue – U.S. Networks (2)	$ 428	455	416	413	385
Revenue – International Networks (3), (4)	181	177	159	171	146
Revenue – Commerce, Education & Other (5)	30	28	26	109	26
Revenue – Total	$ 639	660	601	693	557
OCF – U.S. Networks (2)	$ 165	183	147	140	151
OCF – International Networks (3), (4)	30	21	25	26	26
OCF – Commerce, Education & Other (5)	(24)	(20)	(24)	16	(16)
OCF – Total	$ 171	184	148	182	161
Operating Income	$ 166	130	97	159	129

(1) **DCI** - Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) **DCI – Discovery Networks U.S.**: Discovery Channel, TLC, Animal Planet, Travel Channel, Discovery Health Channel, Discovery Kids Channel, The Science Channel, Discovery Times Channel, Discovery Home (f/k/a Discovery Home & Leisure Channel), Military Channel (f/k/a Discovery Wings Channel), Discovery HD Theater, Fit TV, BBC-America Representation and online initiatives.

Discovery Networks U.S. Joint Ventures – Discovery Times, Animal Planet (US) – Consolidated:
DCI owns a 50% interest in Discovery Times and a 60% interest in Animal Planet (US). These ventures are controlled by DCI and consolidated into the results of Discovery Networks U.S. Due to certain contractual redemption rights of the outside partners in the ventures, no losses of these ventures are allocated to the outside partners.

(3) **DCI – Discovery Networks International:** Discovery Channels in UK, Europe, Latin America, Asia, India, Africa, Middle East; Discovery Kids in UK, Latin America; Discovery Travel & Living in UK, Europe, Latin America, Asia, Middle East, Africa, India; Discovery Home & Health in UK, Latin America, Asia; Discovery Real Time in UK, Asia; Discovery Civilisation in UK, Europe, Latin America, Middle East; Discovery Science in UK, Europe, Latin America, Asia, Middle East; Discovery Wings in UK; Animal Planet in UK, Germany, Italy, Discovery en Español, Discovery Geschichte in Germany, Discovery Turbo in Latin America and consolidated BBC/DCI joint venture networks (Animal Planet networks in Europe, Latin America, Japan, Asia, Africa; People + Arts in Latin America and Spain/Portugal).

Discovery Networks International Joint Ventures – Consolidated
Discovery Networks International joint venture networks (Animal Planet networks in Europe, Latin America, Japan, Asia, Africa; People + Arts in Latin America and Spain/Portugal) are composed of joint ventures with British Broadcasting Corporation. These ventures are controlled by DCI and consolidated into the results of Discovery Networks International. The equity in the assets of these joint ventures is predominantly held 50/50 by DCI and BBC. Exceptions involve participants related to the local market in which a specific network operates.

(4) **DCI – Discovery Networks International – Equity Affiliates:**
DCI accounts for its interests in joint ventures it does not control as equity method investments. The operating results of joint ventures that DCI does not control, including Discovery Channel Canada, Discovery Channel Japan, Discovery Kids Canada, Discovery Health Canada, Discovery Civilization Canada, and Animal Planet Canada are not consolidated and are not reflected in the results presented above.

(5) **DCI – Commerce, Education and Other**: Commerce, Education & Other is comprised of a North American chain of 112 Discovery Channel retail stores, a mail-order catalog business, an on-line shopping site, a global licensing and strategic partnerships business, and an educational business that reaches many students in the U.S. through the sale of supplemental hardcopy products and the delivery of streaming video-on-demand through its digital internet enabled platforms.

NON-GAAP FINANCIAL MEASURES

This press release includes a presentation of operating cash flow, which is a non-GAAP financial measure, for each of the privately held entities of DHC included herein together with a reconciliation of that non-GAAP measure to such entity's operating income, determined under GAAP. DHC defines operating cash flow as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock and other equity-based compensation). Operating cash flow, as defined by DHC, excludes depreciation and amortization, stock and other equity-based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP.

DHC believes operating cash flow is an important indicator of the operational strength and performance of its businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. Because operating cash flow is used as a measure of operating performance, DHC views operating income as the most directly comparable GAAP measure. Operating cash flow is not meant to replace or supercede operating income or any other GAAP measure, but rather to supplement the information to present investors with the same information as DHC's management considers in assessing the results of operations and performance of its assets. Please see the attached schedules for a reconciliation of consolidated segment operating cash flow to consolidated earnings before income taxes (Schedule 1) and a reconciliation of each identified entity's operating cash flow to its operating income calculated in accordance with GAAP (Schedule 2).

DISCOVERY HOLDING COMPANY

SCHEDULE 1

The following table provides a reconciliation of consolidated segment operating cash flow to earnings before income taxes for the three months ended September 30, 2005 and 2004.

(amounts in millions)	3Q05	3Q04
Ascent Media	$ 18	23
Corporate & Other	(1)	(1)
Consolidated segment operating cash flow	**$ 17**	**22**
Consolidated segment operating cash flow	17	22
Stock compensation	--	(1)
Depreciation and amortization	(18)	(18)
Share of earnings of DCI	33	20
Other, net	2	1
Earnings before income taxes	**$ 34**	**24**

SCHEDULE 2

The following tables provide reconciliation of operating cash flow to operating income calculated in accordance with GAAP for the three months ended September 30, 2005, June 30, 2005, March 31, 2005, December 31, 2004 and September 30, 2004, respectively.

(amounts in millions)	3Q05	2Q05	1Q05	4Q04	3Q04
ASCENT MEDIA GROUP LLC (100%)					
Operating Cash Flow	$ 18	21	21	27	23
Depreciation and Amortization	(17)	(20)	(17)	(24)	(18)
Stock Compensation Expense	--	(4)	--	(1)	(1)
Other	--	--	--	--	--
Operating Income	**$ 1**	**(3)**	**4**	**2**	**4**
DISCOVERY COMMUNICATIONS, INC. (50%)					
Operating Cash Flow	$ 171	184	148	182	161
Depreciation and Amortization	(31)	(31)	(29)	(32)	(28)
Long-Term Incentive Plan	26	(23)	(22)	9	(26)
Other	--	--	--	--	22
Operating Income	**$ 166**	**130**	**97**	**159**	**129**

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*** Slip Sheet ***

Discovery Holding Company
First Quarter Earnings Release

Englewood, Colorado – On May 10, 2006, Discovery Holding Company ("DHC") filed its Form 10-Q with the Securities and Exchange Commission for the three months ended March 31, 2006. The following release is being provided to supplement the information provided to investors in DHC's Form 10-Q as filed with the SEC.

DHC is comprised of a 100% ownership interest in Ascent Media Group LLC ("Ascent Media" or "AMG"), a 100% ownership interest in AccentHealth, LLC and a 50% ownership interest in Discovery Communications, Inc. Ascent Media provides creative, media management and network services to the media and entertainment industries. DCI is a global media and entertainment company that provides programming in over 160 countries and territories. Effective January 27, 2006, one of DHC's subsidiaries acquired substantially all of the assets of AccentHealth, LLC's healthcare media business. AccentHealth operates an advertising-supported captive audience television network in approximately 11,000 doctor office waiting rooms nationwide.

DHC reported today that Discovery Communications Inc. ("DCI") experienced 6% revenue growth and 3% operating cash flow growth at its U.S. Networks division and 21% revenue growth and 35% operating cash flow growth at its International Networks division for the first quarter of 2006. During the first quarter, DCI commercially launched Cosmeo, its online homework help tool.

Discovery

The presentation below presents information regarding 100% of DCI's revenue, operating cash flow and other selected financial statement metrics even though DHC only owns 50% of the equity of DCI and accounts for DCI as an equity affiliate. Please see page 3 for a discussion of why management believes this presentation is meaningful to investors.

DCI's total revenue increased 10% and operating cash flow decreased 2%.

U.S. Networks' revenue increased by 6% to $443 million and operating cash flow increased by 3% to $152 million. The growth in revenue was due to a 22% increase in distribution revenue partially offset by a 6% decrease in advertising revenue. Net distribution revenue increased 22% as the U.S. Networks had an 11% increase in paying subscribers in the first quarter combined with contractual rate increases. U.S. Networks distribution revenue increases were also aided by reduced launch fee amortization, a contra-revenue item, as certain affiliation agreements were extended. Net advertising revenue decreased 6% due primarily to lower advertising sell-out rates combined with lower rates at certain networks. Operating expenses increased 8% due to an increase in programming expense as the company continued its investment across all U.S. networks in original productions and high profile series and specials. Operating cash flow increased due to the increased revenue.

International Networks revenue increased 21% to $193 million and operating cash flow increased 35% to $31 million. The increase in revenue was due to growth in distribution and advertising revenue. Net distribution revenue increased 25% due to increases in paying subscription units in Europe, Latin America and Asia, as well as the international joint venture channels combined with contractual rate increases in certain markets. Net advertising revenue increased 16% primarily due to higher viewership in Europe and Latin America combined with an increased subscriber base in most markets worldwide. Operating expenses increased 19% due to expected increases in headcount as the business expands, particularly in the U.K. and Europe, combined with an increase in marketing expense associated with branding and awareness efforts, particularly in Europe, related to the Lifestyles category initiative.

Operating cash flow increased 35% as the growth in revenue outpaced the growth in operating expenses. Excluding the effects of exchange rates, revenue increased 26% and operating cash flow increased 55%.

Revenue in the Commerce, Education and Other division decreased by 12%. The decrease was the net effect of a 32% increase in education revenue offset by a 9% decrease in commerce revenue. The decrease in commerce revenue was primarily due to a 6% decrease in store revenue resulting from a 6% temporary decrease in the number of stores. The 32%, or $2 million, increase in education revenue was due to a 70% increase in streaming service revenue resulting from a 59% increase in the number of schools paying for the streaming service. Operating expenses increased 27% due to a 150% increase in education expenses due to increases in personnel, overhead and marketing expenses to accommodate the growth of the business. Also contributing to the increased costs was the commercial launch during the first quarter of Cosmeo, DCI's online homework help tool.

DCI's outstanding debt balance was $2.8 billion at March 31, 2006.

DHC

DHC's consolidated revenue decreased 11% to $154 million and consolidated operating cash flow decreased 35% to $13 million. The decrease in revenue was primarily due to decreases at Ascent Media's network services and media management services groups. The network services group revenue decreased 24%, or $17 million, due to fewer systems integration projects and distribution contract terminations in the U.K. The media management services group revenue decreased 11%, or $3 million, due to a decline in traditional media services, lower lab revenue, lower DVD compression and authoring work in the U.S. These decreases were partially offset by higher revenue due to the acquisition of AccentHealth, increases in library and traditional media services in the U.K. and higher staffing and post production revenue in the U.S. and Singapore. The decrease in operating cash flow was due to the decreases in revenue.

NOTES

As a supplement to DHC's consolidated statements of operations included in its 10-Q, the preceding is a presentation of financial information on a stand alone basis for DCI and for the consolidated results of DHC for the three months ended March 31, 2006.

Unless otherwise noted, the foregoing discussion compares financial information for the three months ended March 31, 2006 to the same periods in 2005. Please see page 5 of this press release for the definition of operating cash flow and a discussion of management's use of this performance measure. Schedule 1 to this press release provides a reconciliation of DHC's consolidated segment operating cash flow for its operating segments to consolidated earnings before income taxes. Schedule 2 to this press release provides a reconciliation of the operating cash flow for DHC and DCI to that entity's operating income for the same period, as determined under GAAP. Certain prior period amounts have been reclassified for comparability with the 2006 presentation.

OUTSTANDING SHARES AND LIQUIDITY

At March 31, 2006, there were approximately 280.2 million outstanding shares of DISCA and DISCB and 5.0 million shares of DISCA and DISCB reserved for issuance pursuant to warrants and employee stock options. At March 31, 2006, there were 861,285 options that had a strike price that was lower than the closing stock price. Exercise of these options would result in aggregate proceeds of approximately $10.9 million. At March 31, 2006, DHC had $200 million of cash and liquid investments and no debt.

Certain statements in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as trend information in the discussion of DCI's and Ascent Media's revenue, expenses and operating cash flow. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the operating businesses of DHC included herein or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others: the risks and factors described in the publicly filed documents of DHC, including the most recently filed Form 10-Q of DHC; general economic and business conditions and industry trends including in the advertising and retail markets; spending on domestic and foreign advertising; the continued strength of the industries in which such businesses operate; continued consolidation of the broadband distribution and movie studio industries; uncertainties inherent in proposed business strategies and development plans; changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders and IP television and their impact on television advertising revenue; rapid technological changes; future financial performance, including availability, terms and deployment of capital; availability of qualified personnel; the development and provision of programming for new television and telecommunications technologies; changes in, or the failure or the inability to comply with, government regulation, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings; adverse outcomes in pending litigation; changes in the nature of key strategic relationships with partners and joint ventures; competitor responses to such operating businesses' products and services, and the overall market acceptance of such products and services, including acceptance of the pricing of such products and services; and threatened terrorist attacks and ongoing military action, including armed conflict in the Middle East and other parts of the world. These forward-looking statements speak only as of the date of this Release. DHC expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in DHC's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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SUPPLEMENTAL INFORMATION

Please see page 5 for the definition of operating cash flow (OCF) and Schedule 2 at the end of this document for reconciliations for the applicable periods in 2005 and 2006 of operating cash flow to operating income, as determined under GAAP, for each identified entity.

The selected information for DCI below presents 100% of the revenue, operating cash flow, operating income and other selected financial metrics for DCI even though DHC owns only 50% of DCI and accounts for it as an equity affiliate. This presentation is designed to reflect the manner in which DHC's management reviews the operating performance of its investment in DCI. It should be noted, however, that the presentation is not in accordance with GAAP since the results of operations of equity method investments are required to be reported on a net basis. Further DHC could not, among other things, cause DCI to distribute to DHC our proportionate share of the revenue or operating cash flow of DCI.

The selected financial information presented for DCI was obtained directly from DCI. DHC does not control the decision-making processes or business management practices of DCI. The above discussion and following analysis of DCI's operations and financial position has been prepared based on information that DHC receives from DCI and represents DHC's views and understanding of DCI's operating performance and financial position based on such information. DCI is not a separately traded public company, and DHC does not have the ability to cause DCI's management to prepare their own management's discussion and analysis for our purposes. Accordingly, we note that the material presented in this publication might be different if DCI's management had prepared it. DHC is not aware, however, of any errors in or possible misstatements of the financial information provided to it by DCI that would have a material effect on DHC's consolidated financial statements.

QUARTERLY SUMMARY

(amounts in millions)	1Q05	2Q05	3Q05	4Q05	1Q06
DISCOVERY HOLDING COMPANY (100%)					
Revenue	174	178	168	174	154
OCF	20	19	17	23	13
Operating Income (Loss)	3	(5)	(1)	2	(3)
DISCOVERY COMMUNICATIONS, INC. (50.0%) (1)					
Revenue – U.S. Networks (2)	416	455	428	444	443
Revenue – International Networks (3), (4)	159	179	182	218	193
Revenue – Commerce, Education & Other (5)	26	26	29	110	23
Revenue – Total	601	660	639	772	659
OCF – U.S. Networks (2)	147	183	165	148	152
OCF – International Networks (3), (4)	23	20	30	34	31
OCF – Commerce, Education & Other (5)	(22)	(19)	(24)	2	(38)
OCF – Total	148	184	171	184	145
Operating Income	97	130	166	121	110

(1) DCI - Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) DCI – Discovery Networks U.S.: Discovery Channel, TLC, Animal Planet, Travel Channel, Discovery Health Channel, Discovery Kids Channel, The Science Channel, Discovery Times Channel, Discovery Home, Military Channel, Discovery HD Theater, Fit TV, BBC-America and BBC World News Representation and online initiatives.

Discovery Networks U.S. Joint Ventures – Discovery Times, Animal Planet (US) – Consolidated:
DCI owns a 50% interest in Discovery Times and a 60% interest in Animal Planet (US). These ventures are controlled by DCI and consolidated into the results of Discovery Networks U.S. Due to certain contractual redemption rights of the outside partners in the ventures, no losses of these ventures are allocated to the outside partners.

(3) DCI – Discovery Networks International: Discovery Channels in UK, Europe, Latin America, Asia, India, Africa, Middle East; Discovery Kids in UK, Latin America; Discovery Travel & Living in UK, Europe, Latin America, Asia, India; Discovery Home & Health in UK, Latin America, Asia; Discovery Real Time in UK, Europe, Asia; Discovery Civilisation in UK, Europe, Latin America, Middle East; Discovery Science in UK, Europe, Latin America, Asia, Middle East; Discovery Wings in UK; Animal Planet in UK, Germany, Italy; Discovery en Español, Discovery Kids en Español, Discovery Travel & Living (Viajar y Vivir) in U.S.; Discovery Geschichte in Germany; Discovery HD in Germany; Discovery Turbo in Latin America and Spain/Portugal and consolidated BBC/DCI joint venture networks (Animal Planet networks in Europe, Latin America, Japan, Asia, Africa; Middle East; People + Arts in Latin America and Spain/Portugal).

Discovery Networks International Joint Ventures – Consolidated
Discovery Networks International joint venture networks (Animal Planet networks in Europe, Latin America, Japan, Asia, Africa, Middle East; People + Arts in Latin America and Spain/Portugal) are composed of joint ventures with British Broadcasting Corporation. These ventures are controlled by DCI and consolidated into the results of Discovery Networks International. The equity in the assets of these joint ventures is predominantly held 50/50 by DCI and BBC. Exceptions involve participants related to the local market in which a specific network operates.

(4) DCI – Discovery Networks International – Equity Affiliates:
DCI accounts for its interests in joint ventures it does not control as equity method investments. The operating results of joint ventures that DCI does not control, including Discovery Channel Canada, Discovery Channel Japan, Discovery HD Japan, Discovery Kids Canada, Discovery Health Canada, Discovery Civilization Canada, Discovery HD Canada, and Animal Planet Canada are not consolidated and are not reflected in the results presented above.

(5) DCI – Commerce, Education and Other: Commerce, Education & Other is comprised of a North American chain of over 100 Discovery Channel retail stores, a mail-order catalog business, an on-line shopping site, a licensing and strategic partnerships business, and an educational business that reaches many students in the U.S. through the sale of supplemental hardcopy products and the delivery of streaming video-on-demand through its digital internet enabled platforms.

NON-GAAP FINANCIAL MEASURES

This press release includes a presentation of operating cash flow, which is a non-GAAP financial measure, for DHC on a consolidated basis and DCI on a stand alone basis together with a reconciliation of that non-GAAP measure to such entity's operating income, determined under GAAP. DHC defines operating cash flow as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock and other equity-based compensation). Operating cash flow, as defined by DHC, excludes depreciation and amortization, stock and other equity-based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP.

DHC believes operating cash flow is an important indicator of the operational strength and performance of its businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. Because operating cash flow is used as a measure of operating performance, DHC views operating income as the most directly comparable GAAP measure. Operating cash flow is not meant to replace or supercede operating income or any other GAAP measure, but rather to supplement the information to present investors with the same information as DHC's management considers in assessing the results of operations and performance of its assets. Please see the attached schedules for a reconciliation of consolidated segment operating cash flow to consolidated earnings before income taxes (Schedule 1) and a reconciliation of each identified entity's operating cash flow to its operating income calculated in accordance with GAAP (Schedule 2).

DISCOVERY HOLDING COMPANY

SCHEDULE 1

The following table provides a reconciliation of consolidated segment operating cash flow to earnings before income taxes for the three months ended March 31, 2005 and 2006.

(amounts in millions)	Q105	Q106
Consolidated segment operating cash flow	$ 20	13
Stock compensation	--	--
Depreciation and amortization	(17)	(16)
Share of earnings of DCI	23	21
Other, net	--	2
Earnings before income taxes	**$ 26**	**20**

SCHEDULE 2

The following tables provide reconciliation of operating cash flow to operating income calculated in accordance with GAAP for the three months ended March 31, 2005, June 30, 2005, September 30, 2005, December 31, 2005 and March 31, 2006.

(amounts in millions)	1Q05	2Q05	3Q05	4Q05	1Q06
DISCOVERY HOLDING COMPANY (100%)					
Operating Cash Flow	20	19	17	24	13
Depreciation and Amortization	(17)	(20)	(18)	(21)	(16)
Stock Compensation Expense	--	(4)	--	(1)	--
Other	--	--	--	--	--
Operating Income	**3**	**(5)**	**(1)**	**2**	**(3)**
DISCOVERY COMMUNICATIONS, INC. (50.0%)					
Operating Cash Flow	148	184	171	184	145
Depreciation and Amortization	(29)	(31)	(31)	(32)	(30)
Long-Term Incentive Plan	(22)	(23)	26	(31)	(5)
Other	--	--	--	--	--
Operating Income	**97**	**130**	**166**	**121**	**110**

*** Slip Sheet ***

Discovery Holding Company
Second Quarter Earnings Release

Englewood, Colorado – On August 11, 2006, Discovery Holding Company ("DHC") filed its Form 10-Q with the Securities and Exchange Commission for the three months ended June 30, 2006. The following release is being provided to supplement the information provided to investors in DHC's Form 10-Q as filed with the SEC.

DHC is comprised of a 100% ownership interest in Ascent Media Group LLC ("Ascent Media" or "AMG"), a 100% ownership interest in AccentHealth, LLC and a 50% ownership interest in Discovery Communications, Inc. ("DCI"). Ascent Media provides creative, media management and network services to the media and entertainment industries. AccentHealth operates an advertising-supported captive audience television network in approximately 11,000 doctor office waiting rooms nationwide. DCI is a global media and entertainment company that provides programming in over 170 countries and territories.

DHC reported today that Discovery Communications Inc. experienced 9% revenue growth and 13% operating cash flow growth at its U.S. Networks division and 16% revenue growth and 25% operating cash flow growth at its International Networks division for the second quarter of 2006.

Discovery

The presentation below presents information regarding 100% of DCI's revenue, operating cash flow and other selected financial statement metrics even though DHC only owns 50% of the equity of DCI and accounts for DCI as an equity affiliate. Please see page 3 for a discussion of why management believes this presentation is meaningful to investors.

DCI's total revenue increased 11% and operating cash flow increased 3%. Total revenue increased due to a 19% increase in distribution revenue and a 3% increase in advertising revenue.

U.S. Networks' revenue increased 9% to $498 million and operating cash flow increased 13% to $206 million. The growth in revenue was due to a 17% increase in distribution revenue and a 1% increase in advertising revenue. The higher distribution revenue was driven by an 11% increase in paying subscribers in the second quarter and contractual rate increases. Growth in paying subscription units is occurring predominantly at networks that are carried on the digital tier due to the expiration of free viewing periods. Net advertising revenue increased 1% due primarily to higher rates at certain networks partially offset by lower inventory sell-out at certain networks. DCI experienced ratings increases at its two largest networks, Discovery Channel and TLC.

U.S. Networks operating expenses increased 7% due to an increase in programming expense as the company continued its investment across all U.S. networks in original productions and high profile series and specials partially offset by a decrease in marketing expenses. Operating cash flow increased as revenue increases outpaced growth in operating expenses.

International Networks revenue increased 16% to $207 million and operating cash flow increased 25% to $25 million. The increase in revenue was due to growth in distribution and advertising revenue. Net distribution revenue increased 21% due to increases in paying subscription units in Europe, Latin America and Asia combined with contractual rate increases in certain markets. Net advertising revenue increased 11% primarily due to higher viewership in Europe and Latin America combined with an increased subscriber base in most markets worldwide. Operating expenses increased 14% due to expected increases in headcount as the business expands, particularly in the U.K. and Europe, combined with an increase in marketing expense associated with branding and awareness efforts, particularly in Europe, related to the Lifestyles category initiative. Operating cash flow increased 25% as the growth in revenue outpaced the growth in operating expenses. Excluding the effects of exchange rates, revenue increased 17% and operating cash flow increased 53%.

Revenue in the Commerce, Education and Other division increased by 8%. The increase was the net effect of a 19% increase in education revenue offset by a 1% decrease in commerce revenue. The decrease in commerce revenue was primarily due to a 1% decrease in store revenue resulting from a 5% decrease in the weighted average number of stores as Discovery has closed unprofitable stores. The 19%, or $1 million, increase in education revenue was due to a 34% increase in streaming service revenue resulting from a 44% increase in the number of schools paying for the streaming service. Operating expenses increased 53% due to a 134% increase in education expenses due to increases in personnel, overhead and marketing expenses to accommodate the growth of the business and drive awareness and demand for the new consumer product offering *Cosmeo*, DCI's online homework help tool. Operating losses increased by 116% due to continued investment in the education business.

DCI's outstanding debt balance was $2.8 billion at June 30, 2006.

On August 1, DCI announced that Judith A. McHale, President and Chief Executive Officer, is stepping down as of December 1, 2006 to participate more directly in discussions related to critical domestic and global issues. Discovery's Founder and Chairman John S. Hendricks announced that McHale will play an on-going special role advising him on all of Discovery's education business initiatives and will continue to serve in a voluntary capacity as the Chairman of the Discovery Channel Global Education Partnership.

DHC

DHC's consolidated revenue decreased 7% to $166 million and consolidated operating cash flow decreased 47% to $10 million. The decrease in revenue was primarily due to decreases at Ascent Media's media management and network services groups. The media management services group revenue decreased 13%, or $4 million, due to a decline in traditional media and lab services in the U.S. The network services group revenue decreased 11%, or $7 million, due to fewer systems integration projects and distribution contract terminations in the U.K. These decreases were partially offset by higher revenue due to the acquisition of AccentHealth, as well as higher post production revenue in Singapore and increased content distribution performance in the U.S. The decline in operating cash flow was due to the decreases in revenue.

NOTES

As a supplement to DHC's consolidated statements of operations included in its 10-Q, the preceding is a presentation of financial information on a stand alone basis for DCI and for the consolidated results of DHC for the three months ended June 30, 2006.

Unless otherwise noted, the foregoing discussion compares financial information for the three months ended June 30, 2006 to the same periods in 2005. Please see page 5 of this press release for the definition of operating cash flow and a discussion of management's use of this performance measure. Schedule 1 to this press release provides a reconciliation of DHC's consolidated segment operating cash flow for its operating segments to consolidated earnings before income taxes. Schedule 2 to this press release provides a reconciliation of the operating cash flow for DHC and DCI to that entity's operating income for the same period, as determined under GAAP. Certain prior period amounts have been reclassified for comparability with the 2006 presentation.