

**Keynote Address to the GSMA Mobile Asia Congress
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It was only 10 months ago that we were together in Barcelona. Since then, much has changed in the mobile entertainment space...and much has stayed the same. And, that's both good news and bad for our industries.

Some of what I am going to say to you today will sound familiar. But I've also got a few new things to tell you that will, I think, surprise and maybe even thrill you...especially one new initiative we're very proud of. It's a project we're convinced will forge an inextricable link between the mobile phone and how people experience and buy music ... a project of great mutual benefit for both of our industries. But, more on that in a few minutes.

When I was in Barcelona I had the pleasure of addressing the GSMA Board and members in a closed session. I was excited when in that meeting I was told that, of the GSMA's top five economic priorities, music was number two, right behind micropayments. Typically, I don't like settling for second place, but if the notion is that priority number one could be used to pay for priority number two, then second place is just fine.

We know the mobile phone is altering the fabric of modern life. That transformation is accelerating everyday and soon what we hold in our hands won't even be called a phone anymore. But whatever we call it, mobile networks and devices are changing the way people communicate, the way they entertain themselves, the way they bond with family, friends and colleagues, and, yes, the way they experience music.

As I've said before: The mobile platform is an enormous part of the future of the music business. And I believe that music is crucial to the future of the mobile industry.

Consumers remind us of this every day.

Four years ago, sales of MP3 players were beginning to take off and music-enabled phones were minimal. Last year sales of those music phones topped 80 million units while MP3 players sold less than 50 million. And next year, there will be more than 200 million music enabled handsets. In China, potentially the world's biggest market for mobile phones, a music player is the most desired feature. Yet worldwide, fewer than 10% of consumers use phones to buy music

and less than 1% use them to purchase anything more than ringtones. It's not for lack of interest, either, but I'll get to that in a second.

Asia is the largest and most vibrant mobile music market on the planet, but the phenomenon is quickly spreading worldwide. Europe's aggressive rollout of high-speed 3G data networks is accelerating interest and functionality...each at a rapid pace. Analysts predict that within the next three years, a higher percentage of European and American mobile customers will be downloading music than their counterparts will be doing in Asia. And in all three regions, the ranks of mobile music subscribers are growing at an average of more than 20% a year.

That's a brief snapshot of where we are today. To put it in context, here's a little slice of history:

It took more than a decade from the first monophonic ringtone—the once ubiquitous “Nokia Tune”—in 1993 for the mobile industry to progress to real music master tones. Over the past two years, sales of monophonic ringtones have virtually disappeared. Polyphonic ringtones have already become passé, and in a few years they too will be history. In the meantime, master tone sales have quadrupled.

So, it's now nearly 15 years since that first monophonic ringtone, and yet, to most of the world, full-scale music phones are still a novelty and the music content consumers are being offered is not a whole lot more sophisticated than the original Nokia Tune. Consumers buy what they value. And quite honestly, for the most part, you and we are not giving them what they value. And even when we do, it is almost always hard for them to access.

Not everything the music industry does is unimaginative, of course. For years now, Warner Music has been offering a choice to consumers at Apple's iTunes store...the option to purchase something more than just single tracks, which constitute the mainstay of that store's sales. By packaging a full album into a bundle of music...with ringtones, videos and other combinations and variations...we found products that consumers demonstrably valued and were willing to purchase at premium prices. And guess what? We've sold tons of them. And with Apple's cooperation to make discovering, accessing and purchasing these products even more seamless and intuitive, we'll be offering many, many more of these products going forward.

So, we've been urging our mobile partners to keep pushing the envelope with us, and we've seen some encouraging early stage success. Here are some examples:

- KDDI's 2-year-old Chaka-Uta Full service in Japan has sold more than 150 million songs since its inception;

- Introduced the same year in South Korea, the MelOn streaming music service is already approaching one million monthly subscribers;
- Earlier this year we began offering Verizon's first bundled packs of ringtones and ringback tones. Today those bundles make up 15% of Verizon's ringback tone sales.
- We are getting terrific support from Motorola for our "Moto Packs"—bundles of ringtones and other content—as well as for their early efforts in China to bundle full tracks with ringtones;
- Our latest agreement with Maxis, Malaysia's largest mobile operator, establishes a pricing model for ringback tones that gives both of us the incentive to offer a more dynamic product that consumers will value;
- Partners like Vodafone and Orange in Europe, and Sprint and Verizon in the U.S., have turned full-track downloads into one of the fastest-growing categories of mobile music content;
- Mobile subscription services are also getting traction through a number of efforts from AT&T/Napster, Vodafone/Omnifone and Rhapsody/Verizon;
- And in Japan, our own Rhino Records recently teamed up with Catalyst Mobile and NTT DoCoMo to sell bundled catalog packages.

We're also seeing innovative offerings from fresh entrants who are providing new kinds of consumer experiences. What they need now is attention and support from carriers. There are three companies I particularly encourage you to get to know and you can see their offerings while you're here in Macau:

- envIO Networks is delivering a service that turns the already viral ringback tone into an even more powerful marketing tool by letting the caller know what ringback tone he or she is listening to, and then giving them the option to purchase the tone, rate it, or request more information on the artist—all with one click.
- Vocol offers a service called INCA that pushes promotional content to user's phones in the form of games, ringtones, tracks and other content based on their past preferences.
- Emotive Communication has developed a brand new product category, the "push tone" which allows callers to "push" a specifically chosen song clip to a friend's phone, and the recipient caller can purchase the new song with one click.

These are all exciting advances, but they're not enough.... for us, or for consumers.

As I said earlier, the sad truth is that most of what consumers are being offered today on the mobile platform is boring, banal and basic.

People want a more interesting form of mobile music content. They want it to be easy to buy with a single click—yes, a single click, not a dozen. And they want access to it, quickly and easily, wherever they are. 24/7. Any player in the mobile

value chain who thinks they can provide less than a great experience for consumers and remain competitive is fooling themselves.

Our two industries have some critical choices to make and not a lot of time to make them. Take it from us music industry folks. We used to fool ourselves. We used to think our content was perfect just exactly as it was. We expected our business would remain blissfully unaffected even as the world of interactivity, constant connection and file sharing was exploding.

And of course we were wrong. How were we wrong? By standing still or moving at a glacial pace, we inadvertently went to war with consumers by denying them what they wanted and could otherwise find...and as a result of course, consumers won.

Today there's a new consumer war being waged on the mobile front. And the perceived wisdom that consumers are "complacent" or that the "stickiness" of mobile services—established billing relationships, breadth of network coverage, brand loyalty—is enough to grow or even preserve your subscriber base without continually providing compelling consumer experiences, will prove to be wrong, dead wrong.

You need to look no further than Apple's iPhone to see how fast brilliantly written software presented on a beautifully designed device with a spectacular user interface will throw all the accepted notions about pricing, billing platforms and brand loyalty right out the window. And let me remind you, the genesis of the iPhone is the iPod and iTunes—a *music* device and *music* service that consumers love.

Ladies and gentleman, take it from an industry that learned its lesson. Painfully. Very painfully. Our world was rocked. Now, it's now *your* world that is being rocked. And it's not just by Apple. Nor is it simply the result of a single great device. How long do you think it will take Google to develop the killer mobile-app...on an Internet-based platform no less? Or two kids in a dorm room for that matter?

We're here today because we want you to succeed. We want Apple and Google and you name it to succeed as well. Because we all benefit—companies and consumers alike—when healthy competition spurs more innovation, which leads to more consumption on *every* platform. We want to join with you in a reinvention of mobile entertainment so we can help each other give consumers a spectacular, invigorating, dynamic experience that they will readily pay for.

Don't let 2008 be for your industry what 1999 was for the music industry. Instead, let it be remembered as the year the mobile industry recognized the threat, seized the opportunity, embraced its partners in the content space, and

offered consumers great experiences. And in doing so, drove data usage, ARPU and customer loyalty.

As you know, we're not a technology company, we're a content company. But in the face of all the new distribution platforms and ways consumers access music, we have fundamentally changed the way we create content.

When we met in Barcelona, I pledged to your board that we would address GSMA's recognition of music as a priority by developing an initiative that would give subscribers a far easier way to buy mobile music and greatly enhance the user experience. We call our initiative the Connected Music Experience—or CMX for short—and we believe it represents a significant opportunity for both of our industries, and most importantly, for mobile music consumers.

[CONNECTED MUSIC EXPERIENCE PRESENTATION]

...And thank you Sony Ericsson and all the other partners who've teamed up with us on this exciting new chapter. We'll be announcing a full list of partners for the Connected Music Experience at MIDEM in January, and we hope to add many, many other companies to the mix by the time we launch.

The mobile distribution channel is the most powerful impulse purchase platform the world has ever seen. As network providers you interact with your consumers constantly, all day long. You know how they use their handsets and when they access your networks. You know what they buy, how often they buy it and how much they spend.

We have a profound respect for the power of that platform, yet we believe it has far greater potential than what has been realized to date. Which is why Warner Music has transformed itself to meet the challenges and opportunities of the mobile age. We've turned our record labels into full-scale music content companies: We've created video divisions that are already putting together dynamic new content; we've assembled what we believe is the largest mobile distribution footprint of any media company on the planet; and we have been forging key partnerships with innovative technology providers.

All because we know music is a killer app for consumers on mobile devices, and we are going to do our part from a content perspective to ensure that consumers have a great experience, whether that experience is provided by the current incumbents in the mobile industry or by others such as Apple or Google or players we have yet to imagine. The genie is out of the bottle. The fight for consumer loyalty on the mobile platform has only just begun.

We know consumers want a richer, more interactive, more dynamic product and a far easier, more immediate way of discovering and acquiring music. So what on

earth are we waiting for? Why should you give up this extraordinary opportunity to other players?

This is a fight for all of us. As you have done with your networks and infrastructure, we have invested billions of dollars in our content. The time has come for us to align ourselves and build formidable offering after formidable offering that will attract consumers and keep them coming back day-after-day for the amazing, compelling and dynamic experiences we offer them. Consumers no longer need to accept anything less, which means we need to do a whole lot more. Let's get started.

Thank you.

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