

REMARKS OF EDGAR BRONFMAN, JR.
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Good morning and thank you Steve for that kind introduction.

It's a privilege to be invited to address CTIA. It's a conference, which is becoming—and this may shock you—the music industry's most important conference. CTIA may look like a conference about the wireless industry, but let me assure you, whether you're here representing network operators, handset manufacturers, aggregators or any other segment of the wireless community, you're all, to some degree, attending a music conference. And if you have any doubts, I hope that by the time I'm finished, those doubts will have been erased.

Before I get into our joint future, I'd like to thank Steve for mentioning some of the tremendous efforts Warner Music Group's employees and artists have made on behalf of the victims of the Gulf Coast, and I'd also like to acknowledge the wireless carriers who thus far have raised more than 15 million dollars for hurricane relief. It's great to see the power of your platforms helping people so profoundly.

So, let me say a few words now about our business, the music business, because I believe that just ahead of us may be the single greatest opportunity the music industry has ever had.

You know, it's quite remarkable when you think about some of the most important technological wonders that have transformed daily life—the telephone, the moving picture, the phonograph, the radio, the TV, the credit card, the VCR, the personal computer, the automobile—it's stunning to realize that except for the car, the cell phone is about to embody every single wonder on that list. It is not only the most popular innovation in the history of consumer technology, as a unified device it will have a profound social, economic, and cultural impact on our global society.

But first, a little bit—a speed-dial version—of the history of how Alexander Graham Bell's telephone and Thomas Alva Edison's phonograph have been inexorably moving toward convergence ever since their birth.

In 1877, one year after Bell introduced the telephone, Edison invented a prototype of a phonograph, called “the talking machine,” a prototype that had nothing to do with music. Edison's original idea was to record telegraphic messages for later transmission at a higher rate of speed, but upon hearing his own voice played back through the machine, he was thrilled by the possibilities and went on to develop what became the first phonograph.

Let's fast-forward a century—skipping over person-to-person, area codes, answering machines, past touch tone, the cordless phone, the LP, 8-track, the cassette and the development of the CD—to the 1980's when Motorola introduced the first cell phone DynaTAC, affectionately known as the "brick," and then, a few years after that, when a company called Saehan introduced MPMAN, the first MP3 player.

Moving a couple of decades on, last year in fact, Samsung introduced the world's first cell phone with a hard drive, and only this month, Motorola has launched Rokr, an iTunes-compatible cell phone, and is doing it, I might add, with a little promotional help from one of Warner Music's artists, Madonna. Now importantly, Madonna has just released a ring tone from her first single "Hung Up," off her new album *Confessions On A Dancefloor*, and that's one month before the track goes to radio and even longer before the album's release. This is the first time ever that mobile has been used as an exclusive release platform this far in advance of radio and retail. And while the Rokr doesn't have over-the-air download capability, it is an important step toward getting consumers to view the cell phone not just as a communications device, but as a music player, too. And it won't be very long, weeks only, before 3G cell users in the U.S. will be joining their counterparts from around the world, and quickly downloading full tracks not only by Madonna, but by thousands of other artists as well. The two talking machines of Bell and Edison have become one.

As always, there are some skeptics. They say consumers won't have an appetite for a single cell phone/music device, and consumers won't download full songs wirelessly or operators and manufacturers won't do what's necessary to make the consumers' experience on handsets as easy and compelling as it is on dedicated devices such as the iPod. I believe those skeptics are wrong. And, I'd like to give you a couple of examples to prove my point, and do so by reminding you of those skeptics who, only yesterday, were laughing at the idea that there would ever be a significant demand for ringtones and master tones.

Just about 10 months ago, at a financial conference in New York, I cited analysts' projections with respect to the U.S. mobile music industry, which, to date, is still overwhelmingly ringtone-based. I said that based upon those third-party predictions, U.S. mobile music retail revenue for 2004 would wind up being somewhere between a conservative 122 million dollars and 316 million dollars on the aggressive side. According to PriceWaterhouseCoopers, the actual number for 2004 turned out to be 320 million dollars, surpassing even the most aggressive forecast.

Outside the U.S., last fall in Japan, KDDI launched an over-the-air download service available to their wireless subscribers. Within seven months after launch, their 3G user base of one million subscribers, had already downloaded more than 10 million songs, and did it, by the way, at a price significantly higher than online downloads. And by the end of this month, KDDI expects the number of downloads to reach 20 million.

But here, I think, is the important context for all of this:

Today, there are tens of thousands of brick-and-mortar retail stores in the world where consumers can purchase music. Each retail store carries, on average, a few thousand music titles. On the other hand, there are more than two billion mobile phone subscribers in the world today. In 2010, some analysts predict there will be three billion. Surely all those subscribers won't have music-enabled handsets, but some analysts predict that by 2008, there will be nearly half a billion of these music/cell phone devices shipped to consumers. And WMG alone already has more than 150,000 titles digitized and available for electronic distribution.

What do all these numbers mean? Step back and you can see the picture clearly: the world we grew up in is being transformed—really at a breathtaking pace—from a place in which a very limited, very finite number of physical goods are available in a finite number of record stores to a virtual universe in which ALL the music ever recorded is available digitally, in ANY possible combination, almost anywhere, and all at the touch of a couple of buttons.

Now, some of those skeptics are also saying that this new universe is problematic for our industry, the music industry, because once we uncouple the songs on an album and allow consumers to purchase them individually, people will wind up buying only the one or two songs they like from each CD and our profits will plummet. I take a distinctly contrary view. The unbundling of the album will drive consumption, not impede it. The exponential growth in distribution platforms, combined with maximum flexibility in terms of what consumers can buy, coupled with the quantum expansion in the array of music-based products—the personalization of music assets, which the mobile platform uniquely offers consumers—will drive significant growth for music and music-based content.

In fact, consumption will grow as the fundamental consumer experience is dramatically transformed and improved. When you greatly increase the amount of content available and vastly increase the number of places where the content is available, you set the stage for real and sustained growth. If, on top of that, we can make the consumer experience of searching for and selecting music on handsets competitive with the consumer experience on other devices, wireless will become the most formidable music content distribution platform on the planet.

We're already seeing the evidence of growth, even at this early stage of evolution. At the time the acquisition of Warner Music Group from Time Warner closed, digital revenues accounted for essentially none of our revenues. As of our last quarter, it's 6% of our business, a phenomenal increase in only five quarters. And this isn't simply the result of cannibalization of physical sales. This is growth.

And that digital growth will continue. Consumers will be purchasing ever more music-based products on handsets, as the content portfolio expands, as storage capacity keeps increasing, and, as I mentioned—and this is critical—the handset interface becomes more user-friendly. And growth will be spurred further by initiatives like Sun Microsystems' Open Media Commons, which seeks to develop an open, royalty-free digital rights

management standard, so that buyers will know that their music will work no matter what the playback device. Because finally, this won't be an either/or world. A music purchase doesn't have to be *just* on the handset or *just* the PC. In fact, you will soon see our agreements with wireless carriers providing for simultaneous over-the-air *and* direct-to-PC downloads.

One of the principal reasons we acquired Warner Music in early in 2004 was that we were convinced that we could make the company evolve, and that we could take a company that simply sold music on shiny plastic discs and turn it into a music-based content company, one that would exploit the many developing forms and varieties of digital distribution and transmission, and sell not only our artists' music but a wide range of innovative, music-based content, audio content, video content, graphic content and text content to an ever-expanding consumer base.

And I'm proud to say that our vision is fast becoming reality. Warner Music has led the industry with a series of firsts: the first music company to offer music videos for digital download through a wireless carrier, the first music company to reach an agreement between its recorded music and music publishing divisions for mastertones, ringbacks, and other new wireless formats, one of the first to make ringbacks available in the U.S., the first to use "Short-Codes" on CD packaging in the U.S., and the first music company to launch a wireless streaming music subscription service in the U.S.

And these firsts could only have resulted from working with partners in an industry—the wireless industry—who respect the value of music and understand music's critical role in driving consumer adoption of nascent technologies.

But this partial laundry list of firsts is not intended to mean that we're now just sitting on our assets. We're going much deeper and broader than that. At every level of our organization, from the recording studio to the boardroom, we are creating a transformation of consciousness about what our company is. You see, at Warner, mobile is not something that exists outside of our other businesses. We don't simply hand over our finished masters to the in-house new media guys and then unleash them on all of you here. We have a more organic and innovative approach to developing music-based content.

The first thing we did in this regard was to make sure that people who work in A&R—clearly the fundamental activity of any music company, signing the artists and working with them to record their music—that those A&R people work side-by-side with our new media folks. We want every A&R person to be as familiar with mobile technology as the people working in new media. The A&R folks, in turn, work with artists and producers to change the way they think about how they make music, to get them "mobilized" so to speak.

This collaboration inevitably produces an explosion of ideas with respect to the breadth of creative content that can be developed solely for the mobile platform. And that collaboration goes on during the very recording and production of the album, so

that additional wireless-only content is created and ready for a well-orchestrated and well-timed release. When Green Day was in the studio recording their multi-platinum Grammy-winning, *American Idiot*, Rob Cavallo, the band's celebrated producer, personally produced the ring tones and voice ringers that were released prior to the actual album. That's right, producer, along with the artists—and not some third party technology company—were creating their mobile content. And that is emblematic of the approach to mobile we're taking at Warner Music.

So you see, mobile runs deep in our company. As an example, right now in Manchester, England, Lyor Cohen, our head of U.S. Recorded Music, Richard Blackstone, our head of music publishing, and Paul-Rene Albertini, our head of international, along with dozens of our A&R executives, are watching me speak to you live via satellite from our worldwide A&R conference. I told you CTIA was a music conference.

And that is also what is so exciting about working with you in the mobile world. Decoupling the album, combined with the unique multimedia characteristics inherent in wireless technology, enables us to experiment with entirely new products. Ringbacks, wallpaper, ringtones, voice ringers...they're just the beginning. Combining technological and artistic creativity will lead to new products and new bundled product combinations. Conscious of the consumer's desires and needs, and working together, we can experiment with pricing models, content packages, innovative interfaces, different musical genres and regional musical traditions and keep coming up with compelling personalized experiences that are designed uniquely for the mobile life.

And here's why this is good news, very good news, for the music business.

The music industry has been at its healthiest when multiple formats exist in the marketplace. In the 80s and 90s, when LPs, CDs and cassettes were all sold side-by-side, the consumer experience was at its most robust and consumer spending on music was at its peak. Later, the compact disc became the industry's sole configuration and suffered from the near-fatal double blow of physical and digital piracy. But now, in the wireless space alone, we are seeing the growth of multiple formats and multiple products, which are available commercially over secure, privately-controlled networks by carriers who have trusted billing relationships with consumers. Add to this the promise of a standard DRM, perhaps even the adoption of an open one, plus all of the formats and products available in the Internet space, throw in traditional retail—which is not going away—and the stage is set for the revitalization of our industry.

And now, when consumers have the ability to acquire music over those secure, controlled networks, with operators who have a financial interest in protecting the content that flows through their systems, suddenly piracy-ravaged markets like China, Russia and others will have channels which can represent enormous opportunities for growth.

Just as Bell's telephone and Edison's phonograph produced profound transformations in the way society developed, I believe that the immeasurable value of music—as entertainment, as inspiration, as a means of personal connection and social interaction,

and as an emotionally and spiritually nurturing force—music deliverable anytime, anywhere—will transform, in ways none of us can foresee, not only our business and your business, but the way life is lived.

All of us at Warner Music Group are very proud and very excited to be part of this great adventure with you.

Thank you everyone in Manchester and thank you to everyone here.