

**Remarks of Edgar Bronfman, Jr.  
Chairman and CEO, Warner Music Group  
to the Music Matters – Asia Pacific Music Forum  
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Good morning.

Thank you, John, for that kind introduction, and I'd like to thank the organizers for this unique opportunity.

Allow me to begin by letting you know what a real pleasure it is for me to be here and how deeply honored I feel to be invited as the first keynote speaker at this first-ever Asia-Pacific Music Matters Forum. It's a special privilege to be addressing you here in Hong Kong. For it is here in Asia Pacific where I truly believe the rebirth of our industry is not only well underway but where its growth will ultimately prove to be the most explosive.

Today I'd like to say a few words about my company, Warner Music Group and why we view Asia Pacific as such a critical part of our future.

Warner Music is an independent global company that operates in more than 50 countries worldwide, with 11 companies in Asia Pacific alone. In 2000, when we established Warner Music China, it became the first internationally-owned record company in the country.

Why? What was the reason that made us push so hard to be first in a region where piracy presents such a formidable barrier to success?

Well, we had approximately 1.3 *billion* reasons, but let me briefly walk you through the three key factors we look at when deciding to enter a new market—signs that tell us that the stage is set for robust growth—namely: a vibrant local and regional repertoire; the enforcement of strong copyright laws; and the existence of reliable channels of distribution. As with most issues in the music business, the decision to enter a market like China is made where art and commerce intersect.

First and foremost, it's the music. Great local music. *All* kinds, *all* genres.

When you look at the charts of best-selling artists around the world, you quickly realize that local artists dominate those lists. People everywhere are most responsive to the musical traditions of their own country. The future of music definitely does *not* rest on simply exporting Western superstars. Warner Music International works with more than 400 local artists around the globe who perform in 24 different languages.

We've spent millions of dollars to sign and develop these local, regional and international artists. And about 116 of them are from right here, Asia Pacific. Artists as varied as China's A-Mei, Japan's Rip Slyme, Thailand's Carabao and Indonesia's Jikustik. And that number, I can assure you, will only keep on growing.

Because Asians are not only prolific music producers, they're avid music consumers as well.

Asia Pacific already accounts for a healthy 20 percent of the global recorded music market, and that share is poised to grow exponentially.

The second key factor to opening up a new territory? A legitimate marketplace where music companies and artists can be confident they will be compensated for their work.

Unless a country has in place a copyright regime rigorously enforced by concerned authorities, artists and music companies will naturally be reluctant to invest their time, money and creativity in building an industry there. Historically, astronomical piracy rates have made the barrier to entry in Asia almost impossible to scale for all kinds of IP. Yet, even here, where the piracy rate is among the highest in the world, China, including digital revenues, has grown into the second biggest legal music market in Asia. The Chinese government has recently announced efforts to crack down on piracy, which are encouraging and have given me—and I say this cautiously—some optimism. However, there is much more work to do and infinitely more progress needs to be made to address the nearly unbridled theft of intellectual property. There needs to be a broad and sustained effort that brings about measurable change.

The third major element that impacts a decision to enter a new territory is reliable and efficient distribution. People need to be able to access the music they want—and we need to be able to deliver it to them—quickly and conveniently. The astounding growth of technology—specifically wireless technology—and the many new ways it can instantly distribute music over a secure channel, provides amazing opportunities for the music industry in Asia Pacific.

For example, in 2005 there were more than 800 million wireless subscribers in Asia Pacific. By 2010 that number will grow to 1.2 billion. That means by 2010, more than 40 percent of the 2.9 billion mobile phone users in the world will be in Asia Pacific.

The world's largest mobile phone market is here, in China: more than 400 million subscribers. In 2005 alone, China *added* 85 million mobile subscribers. All this in a country where—the World Bank estimates—the majority of its citizens have never even made a phone call.

What about *music* in this wireless world?

Asia Pacific is the region with the largest mobile music market in the world: 3.2 billion U.S. dollars in 2005.

As mobile music becomes available in more and more areas—today much of the business is centered in Japan and South Korea—some analysts expect that, within three years, one of every six wireless subscribers in Asia Pacific will be downloading music, up from

one in 12 in 2004. That's about 200 million mobile music subscribers downloading music in 2009 spending more than 8 billion dollars to do so and surpassing physical distribution in the process.

What this means is that music in Asia Pacific has the potential for explosive growth via the mobile market. And as wireless networks aggressively transition to 3G technology, not only are the *number* of potential and actual consumers growing, but the very *variety* of music-based content they're being offered is growing right along with them.

But the promise and possibilities that all these numbers represent will be meaningless unless the very way a music company does business radically changes—unless it keeps adapting to this very, very fast-paced and ever-changing environment.

At Warner Music, I'm proud to say, that's *exactly* what we've been doing. Over the past two years, everyone at the company has been questioning every single accepted industry practice we can think of...asking ourselves: do these cherished "truths" still make sense as we go forward? Questions such as:

Must music be released *exclusively* as singles and albums?

Does artistic expression *have* to be limited to CDs or videos?

Does the 74-minute limit of the compact disc mark the outer limits of musical expression?

Are radio and music video channels the *only* broad-based media outlets over which we can expose our music?

What additional content can we create, and how can we package it, in order to grow, enhance, define and celebrate the consumer's digital music experience?

These are just modest examples of our new world, where, for Warner Music, *everything* is up for grabs and *nothing* is sacred.

By constantly examining and challenging long-held assumptions, we keep coming up with new approaches to things, fundamentally refashioning our company, building new business models and transforming Warner Music from an old-time record-and-songs business to what is now really a music-based content company.

The one thing we cannot do—the one thing we *refuse* to do—is stand still.

These days, our A&R people not only produce music for CDs, but for ringtones, SMS-tones, ringbacks, music videos, song clusters, "making of" videos, mobile games. You name it. And the content for all these new configurations is being conceived and created at the very same time the music is being recorded. Not as an afterthought, not at a later date, but as part of the artist's original expression.

These new developments have made what was once feared as the death knell of the industry—the unbundling of the album—into the greatest opportunity the industry has ever had. To those cynics and skeptics who keep telling us that consumers who can buy tracks individually will buy only one or two tracks on an album and that our profits will plummet... to those people I say, the unbundling of the album will *drive* consumption, not impede it. Flexibility in what consumers can buy, the vast array of music-based products they'll be offered, the personalization of music assets which the mobile platform uniquely presents... all these have the potential to drive exponential growth for music and music-based content.

And our new ways of developing that content—we call it our product-innovation strategy—allow us to offer consumers exciting new ways to enjoy music in a single file, one that contains a media-rich music experience unique to each platform on which they listen: cell phone, computer, portable device. And how we affiliate with artists—whether they're on a major label or an independent one—the deals we strike, the services we provide, all these, too, have been transformed. The result? We've developed some of the most promising new talent the industry has to offer.

In sum: telecommunications and wireless companies are the future's most promising distributors of music-based content for several reasons. First: the sheer number of mobile subscribers. Second: the amazing multimedia capabilities of 3G and advanced handsets... And third: because these carriers have a financial interest in protecting and monetizing the content being delivered over their systems. And, just as Warner Music has been a pioneer in content-creation, we're also pioneering innovative partnerships with telecommunications and wireless companies all over the world.

Let me give you a few examples and then close with news about something truly extraordinary we're about to do here in Asia Pacific.

In the U.S., of the four majors, Warner Music—because of our focus on the digital opportunity—has the highest differential between our digital and physical market shares. We strive to be the ideal partner for a variety of carriers, DSPs, telecommunications and Voice-over-IP companies, all of whom are hungry for quality content.

In Europe last year, Warner Music became the first company to execute a multi-territory, cross-platform "triple-play" agreement, reaching more than 110 million subscribers in 10 countries through an agreement with France Telecom that, even in its earliest days, offers a truly staggering laundry list of options: full-track audio and video downloads online and wirelessly and many kinds of ringtones and streaming and voicemail alternatives catering to consumers who want more and more to customize their own personal music experience.

Also last year, we struck a landmark agreement with British Telecom to develop on-demand access to music programming through BT's new TV-over-Broadband service in

the UK which will be the first in the world to offer access to digital terrestrial channels, an extensive video on-demand library and a range of interactive services.

Then, there's Japan. In 2004, KDDI launched an over-the-air download service available to its wireless subscribers. Within seven months after launch, its user base of one million subscribers—a fraction of the size of the potential *online* population in Japan—had already downloaded more than 10 million songs, and did it at a price significantly higher than online downloads. And by the end of 2005 the number of downloads exceeded 30 million. At the end of last year, we partnered with KDDI to offer the world's first mobile music bundle, a package of audio, video, graphic and textual products in a single, downloadable file.

Which brings us to South Korea and today's announcement. Something we think is truly innovative and forward-looking.

As you know, South Korea is perhaps the most advanced and progressive mobile music market in the world. Consumers there spend more than twice as much on mobile music as they do on traditional music formats.

Today, I'm pleased to announce that Warner Music Group and SK Telecom—South Korea's leading wireless provider and largest distributor of recorded music—are forming a first-of-its-kind joint-venture, one that will combine the first-rate recorded music assets of Warner's local roster and SK's leading Seoul Records in an entirely new business model in the signing, development and distribution of music.

The new company, WS Entertainment, will be able to leverage Warner expertise in the signing and developing of artists with SK Telecom's strength in the digital delivery of content. WS Entertainment will give us the ability to easily experiment with sophisticated windowing strategies, bundling of new forms of content, ad-supported models and premium content. The list will go on and on. WS Entertainment will be a fertile incubator and laboratory for exciting developments we can't even imagine sitting here today but which may one day become a staple of our industry. Remember: there was no such thing as a “mobile bundle” when we bought Warner Music in 2004. Two years later, it's just one of a growing number of profitable new musical formats that we've initiated.

We do not think that WS Entertainment is a universal solution, exportable to territories everywhere. We more than understand that each country, each region has its own individual market dynamics, its own unique needs and issues. And that in each territory in which we do business, we'll have to be agile and creative enough to take advantage of the blessings that technology offers us by finding the solutions that best fit the local culture and market.

Let me close by giving you a broader perspective.

For too many years now, the know-it-alls and doomsayers around the world have been saying that the music industry is a sick dinosaur, a giant ailing beast on its last legs.

Let me tell you something that may shock you.

They were right.

But that *old* music industry is being replaced by a *new* music industry—one that's stronger, quicker, better, more creative, more innovative, more profitable and more geared than ever to consumer demand in the digital age.

When we survey the landscape in Asia Pacific, the need for a new business model for music is great. But so too is the opportunity vast. And at Warner Music our determination to access that new model, to accelerate our future through innovation and superior execution is profound. That is why at Warner Music we believe, like the title of one of the songs we publish, “The Best Is Yet To Come.”

Thank you.