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BODY:

ERIC WASSERSTROM, ANALYST, UBS: Okay, we're going to get started with the next presentation. Thanks for being here. I'm very happy to welcome to the stage Edgar Bronfman, Jr., who is the Chairman and CEO of Warner Music Group, one of the world's major music companies and home to a collection of some of the best-known record labels in the music industry, having just reported some strong results last week. Mr. Bronfman also serves on the boards of InterActiveCorp and Fandango, as well as other boards, and we're very happy to have such a prominent speaker here at the conference today. And without further adieu, Edgar.

EDGAR BRONFMAN, CHAIRMAN AND CEO, WARNER MUSIC GROUP: Thanks, Eric, good morning, everyone. So, what we're going to try and do is go through the presentation and then hopefully leave some good amount of time for Q&A. We're going to focus on four principal areas of the presentation. I'm going to get past the Safe Harbor piece. Warner Music is really helping, I think, to lead a transformation or a renaissance of the music industry, changing ourselves from what was traditionally just a records and songs-based industry, selling records or getting royalties from songs, to a music-based content company in an increasingly digital world, and I'll take you through how those multiple revenue streams come onboard.

We think we're a high-performing, innovative and streamlined global company, with an industry-leading management team and some of the world's greatest musical artists, and we're focused very much on driving profitable market share, which we define internally as margin share, and you can only do that by developing your A&R rosters thoughtfully and carefully. And then we do that with a flexible business profile that is diversified and generates very strong cash flow, which we manage in a very disciplined way, and I'll take you through sort of all four of those approaches.

Let me talk about the industry first and how I think we're leading its renaissance. First of all, we are at the very beginning of an explosion of distribution and inventory, and we're poised to benefit from those converging market forces, because you have a virtually infinite increase in ways to consume music, in points of distribution with a virtually infinite increase in music inventory, because now every piece of recorded music is available, and it's now available in any combination.

So you're going from, as I said, 30 to 50,000 retail stores in the United States - sorry, globally, to, if you include 3G networks, hundreds of millions and, shortly, billions of distribution points with massively increased inventory, not to mention the increase in inventory with new products like ringtones, ring-back tones, et cetera. Consumers will be purchasing more of this music-based content, whether it's full-song downloads or ring tones, album art, music videos, making of the music videos. The opportunities to multiply as more portable devices are launched are tremendous, particularly as cell phone storage capacity improves and the quality of those handset interfaces improve as well.

Essentially, I think of the music industry as benefiting from these market forces as they converge by thinking of ourselves as sort of the arms supplier to all the people who are trying to become the music or entertainment provider of choice to consumers. So whether it's bricks and mortar, retail or all the digital options in music delivery, from digital

downloads to subscription to cross-platform aggregators, mobile, our proprietary content is what these providers require to attract and retain their customers.

Competition among distributors such as traditional and specialty retailers, telephone companies, mobile providers, online retailers, broadcasters, cable companies, is leading to a rapid proliferation of music services and purchase points. Huge spending by technology companies, both on the device as well as infrastructure side, confirms that industry's commitment to see this business grow, and I think Warner Music and the music industry generally is very well positioned to capitalize on these phenomenons.

Now, the industry estimates are, I think, quite modest, and this is an average of a lot of different estimates, which shows physical business stabilizing or slightly declining while digital grows dramatically. Digital we think should reach 20% of the total industry revenue by 2008, as broadband, 3G and portable music player penetration grows, along with the continued penetration of legal music services around the world. As I said, the estimates here vary from some very flattish estimates on the sell side to Price Waterhouse and Informa, which are far more bullish than these would reflect.

And while we think that there is some limited cannibalization of physical sales by digital, we generally find, at least so far, that digital sales are incremental to our business, and our 2005 results are a testament to that statement. On the publishing side, industry sources estimate that publishing will grow about 5% over the next three years to about 4.3 billion in '08.

Now, just to be clear, music publishing revenue is the ownership of songs or the ownership of copyrights, and revenue is generated when a song that Warner Chaparral (ph) controls is sold, either in physical or digital form, and that's called a mechanical revenue. Revenue is also generated when a song is performed publicly on radio or television, or even in live concert. That's called performance revenue, or when that song is synchronized to a film, a video game, a television program, et cetera. That revenue is known as synchronization revenue, very, very cleverly named within the industry.

We generally see growth potential in this market as mechanical revenues steady with a steadying physical and digital business and new digital opportunities gain traction, particularly in performance and synch. We also see piracy being contained. Following the unanimous Grokster decision, we are seeing a significant increasing legitimization of the peer-to-peer industry, and I think you'll see that as a major trend throughout 2006.

Bolstered by technological, legal and educational advances to combat piracy, the growth of legitimate digital music services is growing. There are now more than 300 legal online music sites globally, with more than 2 million songs, providing increasingly robust alternatives to illegal file sharing. So, in short, we think the industry is beginning to look better than it has for some number of years.

Within that, of course, we're transforming ourselves to a music-based content company. What does that mean? It means that the industry used to sell, as I said, records of songs, and everything else we produced, we essentially gave away for promotional value. In other words, we would give away content in order to drive someone to go to a store, to buy a record or to listen to a song. And our mission is to move away from that model, away from just being a record and songs company to a music-based content company, which we define as a multifaceted company designed to maximize the potential of our artist-branded content.

We've taken an industry-leading approach to monetizing that content through the development of new and multiple revenue streams. We're highly focused on extracting value from all of our content, including music videos, artwork, lyrics and anything else that's produced in conjunction with the songs that are made by our artists. And we see this content being exploited across many new product categories, denoted on this slide in black. Ring tones, master tones, ring-back tones, full track downloads, video music downloads and new distribution channels and delivery devices like MP3 players, mobile phones, online download stores, subscription services, podcasts, satellite radio, the list goes on and on.

Where the music industry is and where Warner Music is, particularly, is we are at the beginning of attempting to define the new consumer experience with creative digital products that are highly focused on extracting value for our content. Digital downloads currently represent the largest segment within the digital realm, with digital album sales gaining the most traction, and we have created a variety of bundled album offerings that are priced anywhere from 20 to 80% higher than the standard \$9.99 digital album price.

For the majority of album bundles that we've offered since June, and we have been far and away the leader in this effort, almost all have seen a dramatic rise in the number of album purchases versus single track purchases. Not only can we add extra content to our album offerings, such as music videos, lyrics, artwork, mobile ring tones, ring tones, et

cetera, but we can also introduce the product at different times, or start to window our product to attract consumers, particularly who are willing to spend the premium to get their favorite album first, before even the street date.

Now, all of these products are likely to morph and develop over time as new products are tested, but here's a sampling of digital bundles at various price points. And the Madonna one is particularly notable. We engineered a unique trendsetting promotional approach for Madonna's newest album, which is called Confessions on the Dance Floor, by staging a window in the album's release in order to build demand for this iconic artist. With this album, Madonna has become the first artist to have a simultaneous number one hit on all the charts in Europe, which is interesting, because there used to be two - now there are five - and that's number one single, number one album, now number one digital single, number one digital album and number one mobile ring tone, a testament to our digital leadership.

Further, in addition to debuting as the number one album on the top 200 chart here in the U.S., Confessions on the Dance Floor, and here's another interesting point, held three of the top four best-selling album slots on iTunes, recently, three of the top four, with a bundled version, a remix version and an unbundled version of the same album. And, typically, as was the case with Madonna, the most expensive bundle was the most popular.

In addition, we've been very, very focused on the mobile space, and we've built what we believe is the largest mobile distribution network of any media company in the world, which today comprises network operators with a total of over 620 million subscribers. We partnered with the mobile operators to bring creative solutions to customers, and we seek and have achieved what we call chief experiment partner status with many mobile companies. To date, we're the first major music company to sell music videos for digital download to a wireless carrier, to make our music video catalog available for use in original content developed for wireless platforms and to launch a wireless streaming music subscription service in the U.S.

In addition, we're one of the first to make ring-back tones available in the U.S., a rapidly growing segment within the mobile music business. Mobile is the fastest-growing segment within digital, and likely the largest over time, driven by increasing 3G penetration, and all the main players are staking a claim. Moreover, most mobile revenues are truly incremental, in that they do not cannibalize physical sales. Smart mobile solutions for music will also open up economically viable solutions for the music industry in emerging markets, where piracy remains rampant.

For Warner Music Group, digital has grown more than fourfold this year, from last year's number of 36 million to 157 million in our fiscal '05. It represented 6% of our total revenues for our fiscal fourth quarter, ended September 30, primarily driven by the more advanced U.S. market. In fact, we saw absolute gains in the U.S. recorded music market in terms of our digital business - we saw absolute gains of \$79 million in our fiscal '05 year, and that outpaced the marginal declines of 13 million in our U.S. business for the same full fiscal year. So, as I said, we're seeing real progress on the digital front.

We're also very focused on taking these increased revenues and bringing them to the bottom line. First of all, as I mentioned, in driving margin share, we have to be very focused on our A&R investments, and the success of those investments are evident in our U.S. market share gains of 1.2 percentage points to 17.2% calendar year to date through November 27th. Our strong fiscal fourth quarter release schedule, which included a number of major artists, added to our U.S. market share firepower when we added two share points in the September 30 quarter.

But in the U.S. digital space, we achieved a market share of 21%, four share points above our total album share. We have woven the creation of digital products into all aspects of our business, from A&R to marketing, promotions and packaging. Introducing established global acts to new audiences was one of the hallmarks of our A&R investment initiatives. Using ring tones and other mobile content, we repositioned Green Day as a very progressive band with a much more comprehensive suite of offerings that extended their brand power. And very important to note, different from the movie industry, music has a long tail of sales.

Green Day's American Idiot album, as an example, released over a year ago, has sold more than 10.5 million units worldwide, with 20% of this year's units sold coming in our last quarter. Our A&R investments generally are seeing very strong momentum. Atlantic Records, which we've been rebuilding, is progressing nicely with quarterly U.S. revenue up more than 50% year over year, obviously helped by a doubling in artist releases, a third of those were brand new artists, driving improved chart position. We're nurturing new artists like James Blunt, a British-born rocker who's taken Europe by storm after a carefully crafted grassroots promotional build. He will actually be the top-selling artist in the UK this year, and I would say actually at the end of this year, he will be the top-selling artist so far this decade.

He recently won Best New Act at the MTV Europe Music Awards, and we're now working on breaking James here in the U.S. We have an incubator initiative, which is to identify bands much earlier in the A&R process, and therefore to

do it at much lower cost, and we do that by leveraging our industry-leading independent distribution network. Since the inception of the incubators one year ago, we've upstreamed five urban artists, of which four debuted in the top 10, driving our rap share from 7% to 20% during the third calendar quarter year over year. And then renewing the success of people like Madonna, Green Day and Enya and other established superstar artists is another critical component of our A&R focus.

And we do all that, as I mentioned, with some significant financial discipline. Our cost-cutting efforts and drive for margin share are already evident in our adjusted OIBDA margins, which have expanded nicely on a 2% annual revenue gain. Full-year adjusted OIBDA rose 31% to \$491 million, including corporate expenses, which is not itemized by division.

Excluding corporate expenses, recorded music has been the primary contributor to our strength, with over a five-point surge in adjusted OIBDA margins to over 15%. And music publishing was stable in 2005, but with new leadership established, we expect to revitalize performance, but I should note that music publishing's performance in '04 was dramatically above '03, so we've taken the business up to a new level, stabilized it in '05 and expect to make progress from there.

Our cost-savings measures were successful in achieving about \$250 million in annualized cost savings, and our business profile, of course, has great flexibility because we have over three-quarters of our cost in either variable or discretionary spending, and only about a quarter of our costs are fixed. So, as a result, as we improve revenues, we should see impressive operating leverage.

I think also important to remember, our revenue profile helps us to drive steady-to-improving results over time. Only about 10% of our revenue each year is generated by new artists with new releases, and then a sizable portion, almost 35% of our recorded music revenues, has been very predictable, as it comes from the new releases of proven acts, such as Madonna or Enya or Green Day. And then these new releases feed our high-margin catalog business, which is any release that's 18 months old or older, which generates roughly 38% of our revenue. And the final 17% comes from that very stable music publishing business, which is the second-largest music publishing business in the world. And we have extremely attractive cash flow attributes, given the low capital spending requirements and high-return nature of our business, from multi-platinum sellers particularly.

For the fiscal year '05, we converted 84% of adjusted OIBDA into unlevered after-tax cash flow, excluding non-referring charges. So, in summary, our vision is to transform Warner Music Group into the leading music content provider for today's rapidly evolving digital world. For '06, besides the ever-present vigilance on cost, we're going to focus on growing our urban and country rosters, while continuing to build the best overall stable of artists across all genres, enlarging the digital footprint and related content as we continue to create and expand new digital experiences for consumers, driving for margin share, or, as I mentioned, profitable market share, that only comes with carefully managed rosters and artist development, and restoring growth to our publishing business.

We think there's a world of opportunity out there. We think we've made tremendous progress in achieving great gains in that opportunity, and we see that opportunity continuing across the year '06. So, with that, I'd be happy to open it up to Q&A. Thanks, Eric.

ERIC WASSERSTROM: We'll take your questions from the audience in just a few minutes. I'll start it off. Thank you for the presentation. How do you look at tiered pricing? Obviously in the past, you've said that it's something that Warner supports, and can you talk about any sort of agreements or discussions with Apple on the tiering concept?

EDGAR BRONFMAN: I think generally what we've said is that we think that the music industry and recording artists ought to have the opportunity to price products at different levels, and Apple has been tremendously supportive in the short term with our bundled efforts, where we have released albums anywhere from 17.99 to the 9.99 normal digital album and just about every price in between, depending on the additional content that we've provided.

And those digital bundles, as I mentioned in the presentation, have been extremely successful. We have not reneged, and I won't seek to do it publicly, but our position is clear, which is we think variable pricing is a good thing for the industry, and, frankly, a good thing for consumers, and we hope that both consumers and the industry, and we hope Apple will agree and we'll have the opportunity to do that.

ERIC WASSERSTROM: Is there any sort of timeframe set for an agreement, or is it open-ended?

EDGAR BRONFMAN: Well, the terms of our agreement with Apple, including when it ends, are all confidential.

ERIC WASSERSTROM: Questions from the audience?

SCOTT OLDMAN, ANALYST, CREDENCE CAPITAL MANAGEMENT: Hi, Scott Oldman (ph), Credence Capital Management. I just wanted to know what you see on the horizon for DRM and anything else going on to stop piracy and try and capitalize and make more money on the current catalog and current business you have?

EDGAR BRONFMAN: Well, I think there are sort of a number of different DRM solutions, digital rights management solutions, out there. I think that they're becoming increasingly fluid. I think we're going to see, hopefully, a standard on the mobile phone - I hope that one will be adopted in '06. I have a lot of heart for Sun Microsystems, what they call their DRaaS project, which is essentially an open DRM project. But whether it's that or some other, I hope there will be a standard on the mobile platform, that will be tremendously helpful to the industry.

But I think that, as the DRMs become less onerous and the P2P networks become more legitimate, I think you're going to see an increasing adoption of paid-for music services. I think it's an inexorable growth, and the most important way to combat piracy is not really through stopping people from doing what they want to do, but empowering people to do what it is what they want to do, and I think if you do that, people will be happy to pay for it, and I think we're seeing that increasingly and I think that's where we're going.

ERIC WASSERSTROM: Lucas? Up front? Maybe you could stand up so Edgar can see you.

EDGAR BRONFMAN: Actually, I should probably stand up so you can see me.

UNIDENTIFIED AUDIENCE MEMBER: Edgar, in the past, you've talked about sort of your relationship with the satellite radio providers. Can you talk a little bit about where you see the current agreements from the four different, ASCAP, BMI, all those - or RIAA going in the near term in the next 12 to 24 months. And then also where you see your share of those -- how you intend to see your share rise in the revenue share there?

EDGAR BRONFMAN: Well, on satellite radio specifically, the satellite radio agreement is actually different than Apple, which is a company -- individual company agreements. The satellite radio agreement is an agreement with the RIAA, so Warner will not see any increase or decrease in its share, other than the way it's marked to market in terms of the growth of our own market share. But in terms of the RIAA negotiations with satellite radio, et cetera, someone once asked me, what do I want to get out of those negotiations? The answer is more. And what would the satellite radio industry like to give us? The answer is less. And we're going to have to talk to them and I believe the industry will end up with a good deal at the end of the day. I'm optimistic, but I can't predict when that will happen or what the size of that increment will be.

I should note, even the satellite radio industry has said publicly that they expect they'll pay more to the music industry in the future than they're currently spending. I think the question is how much more? And I don't think any of us know until we get those negotiations completed.

UNIDENTIFIED AUDIENCE MEMBER: You've done a remarkable job turning the business around since you bought it and I just wonder --

EDGAR BRONFMAN: Let me stop and say thank you. Appreciate that.

UNIDENTIFIED AUDIENCE MEMBER: -- and notwithstanding that, it just strikes me that based on what you say that the margin opportunities in this business must be substantially more than what you're reporting now, particularly as you go more digital. And I just wonder whether you could comment on how you can envision sort of the operating margin earnings before interest and taxes, depreciation, sort of five years from now? It's just you're underearning, notwithstanding an incredible progress it seems to me, based on what you say. What am I missing?

EDGAR BRONFMAN: If I couldn't see you, I'd say, "Gee, you're on our board." I would say I don't know that we're under earning. I would say, frankly, at the moment, at least, our margins are, I think, pretty much in line with Universal or Sony BMGs, which has a revenue line close to twice our number. So I would say our margins are pretty strong today.

I will say that I do believe that there is room for improvement, but that obviously depends on where one sees the revenue line growing. As I mentioned, both our cost infrastructure is a highly leverageable model, so to the extent that we can increase revenues, we have only a quarter of our cost are fixed, we can bring a lot of that down to the bottom line, and of course most of that is pure cash. So then the question then is what do we do with the cash?

And then I think the other point I'd make, and you're right to point out, is that digital is a higher-margin business for us than physical. So as the business morphs to more digital than physical, our margins will also increase. So I think much of it depends on how fast you think digital will accelerate? How quickly or not will physical grow or climb? And based on that, we have I think a highly flexible, highly leverageable model, which in a growth phase will result in significantly expanded margins. In a phase where it's not growing as rapidly, we'll have a hard time making that amount of progress.

UNIDENTIFIED AUDIENCE MEMBER: What do you think is the scope for additional consolidation within the industry, and what role do you think you can play in that consolidation?

EDGAR BRONFMAN: I think just across the board, this is an area where there's been far too much speculation. I'd like not to add to it. I think when we bought Warner Music, we said this is step one of a one-step plan. Somebody once said to me, there's a reason they put blinders on horses, so they can run their own race, and that's what we're doing, and I think we're doing it pretty well, and I think we've hit the major milestones that we said we would hit. I hope we will be able to continue to do that, and I think we will, on an annual basis. We've also said very clearly to the market, we're not managing this business quarter to quarter, we're not flowing releases before they're ready into a quarter so that we're comparable over a quarter before, so we ask the market, though it's probably difficult for the market to hear us, not to look at us on a quarter by quarter basis, but if you look at what we have said our annual goals have been and outline them here today, we're confident we can continue to meet those, with or without any consolidation, and I think adding speculation to that is not helpful.

ERIC WASSERSTROM: In the back?

UNIDENTIFIED AUDIENCE MEMBER: Getting back to DRM for just one second, do you have any comments on the recent missteps taken by Sony?

EDGAR BRONFMAN: Well, the short answer is no, but let me make a clarification. I'm not going to comment on that. But I would like to make the distinction between copy protection and DRM. DRM is a system for managing digital rights. What Sony employed was a form of copy protection on a CD. I think for people who don't realize, the CD, in a sense, is the source of all digital piracy. It's not a function of the Internet. The Internet is really a distribution mechanism. The CD is a perfect digital master with no copy protection. So every day, we release perfect digital masters into the marketplace, and they can be obviously easily copied and distributed. So I just want to make that distinction.

So that was not a DRM issue. That was just a copy protection issue that I'd like not to comment on - on the Sony BMG issue specifically.

ERIC WASSERSTROM: I'll ask another one while we're waiting for the audience. Obviously, you mentioned in the last quarter, the digital sales increased nicely, 6% of the total sales, and it wasn't really indicating any sort of cannibalization trend. Can you talk about when you start to see that comfort level where you weren't concerned about cannibalization as digital began to grow? That seems to be obviously the biggest sustained issue or concern out there. How do you have confidence that the cannibalization risk is going to be minimized?

EDGAR BRONFMAN: Well, I don't think we can have absolute confidence, because I think we don't know yet. It's still too early. But I certainly would say that from every anecdotal piece of evidence we have so far, the cannibalization rates are either non-existent or extremely modest. Madonna has had more success in this new album with new digital products and with her new album. If you look at, again, these are small things, but in Belgium, for instance, where we still sell CD singles, but very, very modestly, we sold 12,000 CD singles. We haven't sold 12,000 Madonna CD singles in a very long time, but we also sold 8,000 full-track downloads, so we're at 20,000.

Again, it's a small number. It's not projectable to any market, and that's why I respond to you, I can't say to you yet with confidence, but everywhere we go - Scandinavia, and I think I mentioned it on the conference call after the earnings, a very forward-mobile market, sold more full-track downloads on the mobile platform than they did CD singles for Madonna. So we're seeing real incremental business and, by the way, incremental products because the CD single is going the way of the dinosaur. So if we can sell singles and albums, but the singles are going to be increasingly digital, and we can sell ringtones and ringbacktones and artwork and lyrics and music videos, it's hard for me to see how this is not going to be largely incremental to our current business. But absolute confidence probably requires another four or five quarters of experience.

UNIDENTIFIED PARTICIPANT: Another question over here actually. The video business is now going through somewhat of a similar phenomenon of what the music business went through a few years ago. How do you, given your

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experience now and seeing sort of Warner and the music business come through this period of digitization, harnessing that growth rate profitably, do you think the video business is going to move in that same direction and do you see any sort of similarities or differences?

EDGAR BRONFMAN: Well, I certainly see that necessity is the mother of invention, right, and so when your industry is in trouble, it forces you to be innovative and to find new solutions. I do think that the industry, music industry really bore the brunt of this technological change that all industries will be faced to deal with, but that really began in 2000 and it's really run through 2005 and probably has a couple of years to run before it all sorts itself out. But clearly, we've taken the brunt of that hit as a result of this CD platform.

But I really do believe ultimately that content is proprietary and as I look at the entertainment industry, I basically see three buckets of margin, or revenue really. I mean, there's content, there's aggregation and there's distribution. Content is obviously what we have or what an entertainment company might have. Aggregation -- I would call an NBC an aggregator, I'd call Yahoo! maybe a new kind of aggregator. And then distribution could be either now a phone company, a la Verizon, or an MSO.

And if you look at those buckets, fundamentally over time, unless there's something unusual that happens and oftentimes there are unusual things that happens, content gets margins that are proprietary because content is proprietary, aggregation is a service and fundamentally gets service margins over time, and distribution is a commodity and generally gets commodity margins over time. Now, there can be situations where someone owns a pipe and all of a sudden distribution or aggregation margin moves to that point because there's a choke point. Think of MTV in the music industry, no longer, but certainly through the '80s and '90s MTV was able to garner a great deal of margin because it was essentially the only distribution outpost. That's no longer true.

And as I see that the myriad number of platforms and opportunities for content to be distributed having a chokehold on this industry or any other, I think is probably beyond the means of any single company or industry. And, therefore, I believe that the margins will sort out pretty much as I suggested, which is proprietary will get the best margins, aggregation will get service margins and ultimately distribution will get commodity margins.

ADAM GOLD, ANALYST, INVEST CAPITAL: Adam Gold for Invest Capital(ph). Question on digital versus physical and breaking it down further by geographic regions, U.S. has clearly led in the download model, Japan in the mobile. Where do you see emerging markets coming? Do you think there's further room for physical growth as digital services can ramp up?

EDGAR BRONFMAN: In the emerging markets I think there's far more room for growth on the mobile platforms because in most of the emerging markets, particularly the large ones, think of Russia, China, even Brazil, India, you've got rampant, rampant physical piracy. But we have an economic ally with the mobile operator, whether it's China Unicom or China Mobile or just making a deal in Russia -- and the name has gone out of my mind. But all of these operators have a fundamental economic interest in exacting a toll for every piece of data that goes across. So I think we're going to see far -- that's what I meant to say in the presentation -- I think in emerging markets, that's the channel where we'll be able to extract revenue far earlier than being able to turn around fundamental piracy issues, in China for instance.

ADAM GOLD: Average point margins are better obviously, right?

EDGAR BRONFMAN: I'm sorry?

ADAM GOLD: The margins will be better essentially in the digital mobile?

EDGAR BRONFMAN: Well, they'll definitely be better because we'll actually get some revenue, but we are, for instance, the number one music company in China. We've got 40% of the Mandarin market. I like to say that's a very prestigious and singularly unprofitable thing to be. But if we can translate that market share into a new channel and actually start getting some income for it, it is -- it's great for us, and as you mentioned, that income of course is higher margin income than fiscal revenue.

UNIDENTIFIED PARTICIPANT: Okay. I have a question here on the capital structure. Last year at the conference you came and subsequently did a bond deal, a financing. Obviously the cash flow growth has helped reduce leverage. What are your initiatives in terms of your free cash flow usage and paying down debt versus returning capital to shareholders?

EDGAR BRONFMAN: Well, first of all, we -- I think we've got a very comfortable balance sheet. We've got a balance sheet with debt at around four times OIBDA and given the cash flow characteristics of this company and this industry, very comfortable at that level. I'd also mention that we pay about 6.5% or so for our debt and we also pay an \$80 million annual dividend, which at today's rates is probably about a 3% or so dividend. So we are returning money to shareholders through the dividend.

It's not clear that paying down debt is the best outcome for shareholders if we're paying such a relatively low rate for debt and most of that is fixed over a reasonable period of time. So we look at acquisition opportunities. We're not looking particularly at a share buyback, not because we don't believe in our shares, which we do, but because given the nature of ownership, we have a pretty thin float as it is and we don't think actually a share repurchase program right now would necessarily be helpful. But we think about that as well because we look at all of these opportunities somehow to find a way to return the cash to shareholders or grow the company.

But remember, this is a business that can grow without significant reinvestment. It's a very strong cash flow model. Even if we're projecting significant growth, we don't need to build a plant. We're not in the manufacturing business. Our growth comes as a result of the investments that mobile operators make, that Yahoo! makes, that Apple makes, that Samsung makes, et cetera. We don't need to make those investments; we just supply that content to an ever-increasing array of devices and platforms.

UNIDENTIFIED PARTICIPANT: Edgar, two questions. Does the technology exist today that allows you to, on legal peer-to-peer, to track revenue, track collections, et cetera?

And then the second one is what's your sense on how large the legal video side of the business can be? Should it be a lot bigger than ringtones in years to come? What's that opportunity for you of seeing you have a pretty vast library of videos?

EDGAR BRONFMAN: To the first question, there are a number of technologies. Perhaps the best known, and it's new, is called Snowcap and that one actually was created by Shawn Fanning, the very same Shawn Fanning who first created Napster. He's now used his technology skills to create a way to legitimately track peer-to-peer file sharing. And all of the four major record companies have just done deals, actually Warner was the last, but done deals with Snowcap. There are a couple of others, Digital Magic I think and a couple of others, that now do this. So as these peer-to-peer networks become legitimate, and I mentioned I think that's a trend you'll see in 2006, one of the ways they're doing it is by employing one of these technologies which is able to track all of these files.

It's a tremendous technology to be able to do it because we're talking about literally hundreds of millions of files, all of which have different -- or many of which, most of which have different ownership structures. Even in the telephone world, where there are hundreds of millions of tiny transactions a day but there are only sort of 15 or 20 plans, here you've got almost the same number of transactions but every single, or almost every single file has a different pay plan. So it's a significant test of the technology. And there are now finally several that are very strong and robust. So I think, as I said, you'll see a legitimization of P-to-P as a significant trend in '06.

It's hard for me to predict the video market and certainly hard for me to predict it versus ringtones. But what I can tell you is that there's a tremendous growth in video voice ringers as well as ringtones so that if you forget about music videos for the moment, and I don't want to because that's a very big business, I'll get to that in a second, but just video voice ringers, which is either a band member or a band that comes on the screen of your cell phone when your phone rings and says, "Hey, your phone is ringing," as opposed to just hearing it, you actually see something happen, whether that's a band or a piece of artwork or whatever. That's a fast growing business. And again, that's the business that we are -- that we're currently capturing when I talk about the explosion of products that we can bring to market.

And the other is just videos and sales and there I think probably Apple may be a better source, at least in early returns, than us. But Apple's been talking very bullishly about the amount of videos that they're selling on the new video iPod. And certainly the growth of video viewing on Yahoo!, for which we are now being paid -- we were really essentially not paid previously -- is also growing exponentially. So I expect video will become an increasingly important part of our revenue stream over time.

ERIC WASSERSTROM: Okay, with that I think -- we'll thank you very much, Edgar, for coming.

EDGAR BRONFMAN: Thank you. Thanks, everyone.

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