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**BODY:**

UNIDENTIFIED COMPANY REPRESENTATIVE: Okay folks, we're ready to start so if we could close the door in the back. Everybody find a seat. I was going to do a big introduction but then I thought, Edgar, you're stock has performed incredibly well since the IPO, its done much better than the stock market and you've just had a great quarter so that's the best introduction that I could give you, so --

EDGAR BRONFMAN, CEO, **WARNER MUSIC GROUP:** I agree. I agree.

UNIDENTIFIED COMPANY REPRESENTATIVE: Welcome to Global Media Week.

EDGAR BRONFMAN: Thank you.

UNIDENTIFIED COMPANY REPRESENTATIVE: This is my partner Yolanta Massiada(ph) who works with me on the Global Media Team and is based in Sydney and has come a long way for this presentation. So welcome to you as well Yolanta.

So, what we'd like to do is just go through a list of questions and get your latest thoughts and I'll give it, I'll give it a start here. From your viewpoint, you're an investor, but also the CEO of Warner Media Group. Just talk us through almost nine months after the IPO I guess, maybe closer to six, but what are the investment characteristics of the company right now, and have those changed any in the last, in the last several months since the IPO.

EDGAR BRONFMAN: Well I think the investors and the characters of the company, some things remain and I think some things have changed. What remains true is what we've talked about for some time which is that music is fundamentally as an entertainment business is a very well structured business in that you have long term artist contracts, you're not paying so that the margin does not go entirely to talent. You have very little working capital, very little capital expenditure. So it's a business that throws off a lot of cash and it retains margin better than almost all other entertainment businesses.

I think what's changed a little bit since the IPO, I think that we're gradually reducing the amount of skepticism that exists in the market around the growth of digital and the power for digital to be a, both an incremental revenue source and a higher margin revenue as well. And I think what we've been able to do also, which I think will be critical to building value over time and building credibility over time, I think we demonstrated that we've got a strong management team, an industry leading management team. I think the last piece I would say is that we're seeing a real proliferation of content beyond just the traditional song or album business, the publishing recorded music but now a much broader content base across music where we're now selling ring tones, ring back tones, music videos, making of the music videos, video voice ringers etc and being able to bundle those products together in unique ways.

So I think the digital experience for consumers is expanding. I think we've proven that at least so far we're on the leading edge of that, of that curve.

UNIDENTIFIED COMPANY REPRESENTATIVE: Can you talk about the key, the key drivers of growth in recorded music over the next decade? Also talk about publishing as well and some industry participants hold the view that additional sales could make up to another 25% of reported music industry sales in maybe five years time. What's your view on that on how large digital can become as a percent of the whole?

Edgar Bronfman, Jr: What we've said is we certainly expect digital to be 20% of music industry revenues by '08. I think that's reasonable. There are people, I should say as august as Bill Gates who said by in 10 years, 80% of music revenues will be, which we -- will be digital. I have no idea if that's true. I don't - I can't see 10 years from now. But order of magnitude digital growth is very strong and I think that as you think about the growth rate for the music industry. While digital represented 6% of our revenues in Q4, it represented a much - roundly 1% of our digital revenues in our '04 year and we go into our '06 year with a run rate that's clearly going to continue to expand.

So, it's going to become a meaningful part of the business. And I would say today it's still very nascent. Most of our digital revenue still is ring tone or digital download based. We see video coming online strongly, we see these other digital products coming on strongly, so I think there's room for significant expansion and I think the question that people have is what's going to happen to physical. But even what we've seen with our own physical business, at least so far, year to date, is essentially a very marginal decline I think which we outlined for the market. We had about a $79 million increase in the US in digital revenues and a $13 million decline in physical, so net we were well ahead.

YOLANTA MASSIADA, ANALYST, GLOBAL MEDIA: Just looking at the digital statistics, the song scan doc seems to be showing not much a nascent week to week in digital downloads. Are you concerned thus the momentum is slowing as the (inaudible - background noise) matures, (inaudible - background noise)?

EDGAR BRONFMAN: I'm not at all concerned. In fact I'm really not concerned, I'm extremely enthusiastic about the growth. It's a very young business, so it's very difficult to predict or to go back and look at history. But if you, if you look at last year's download rate in the October, November, December period, they didn't show any significant -- any really dramatic growth and you had a step change, sort of last week of December into January, when everybody opened their Christmas present and they had an iPod. And we never looked back from that new level. So that level went from about 3 million downloads a week to about 5 million downloads overnight and has built to most recently about 8 million downloads a week and I expect that there will be likely another significant step change because there will be more iPods sold this Christmas than there was last Christmas.

In addition, you're, I think, only a step away from full track downloads becoming meaningful on the mobile platform. Probably first in Europe but really within a year's time even in the US with increasingly robust solutions and user interfaces. And that of course is across a platform that's hundreds of millions of devices, not even tens of millions of devices. So I see really no slowdown in the digital download business.

YOLANTA MASSIADA: With the recent view of some industry players that there should be differential pricing of downloads, I wondered if you could talk more generally about how you see the balance of power between content earners and distribution platforms?

EDGAR BRONFMAN: Well, I certainly think with regard to variable pricing, that I've said, it's something that we think is appropriate. We think that variable pricing makes sense for consumers. We think it makes sense for artists. And frankly, Apple has been very supportive of variable pricing with regard to bundled albums. They have obviously the single price on single tracks for the moment. And we'll have to see how that evolves over time, but certainly they've been extremely supportive with our bundled albums where we've produced albums at anywhere from 20 to 80% greater price than the digital album of 9.99 and included various additional content, windowed it differently etc. And in each and every case we've seen a significant up tick in the number of digital albums sold. And I should say digital albums are actually having more traction even than digital single tracks. So I think variable pricing will come. I think it's appropriate for consumers to be able to choose the level of consumer demand and so we'll see, we'll just have to see how that plays out over the next month.

UNIDENTIFIED COMPANY REPRESENTATIVE: Can the growth in digital revenues grow the overall pie or will it just stop it from shrinking and maybe wind that into some thoughts on where you think the industry's war on piracy currently stands.

EDGAR BRONFMAN: Look, I have to say the reason I wrote the check, okay? Was that I believed two fundamental things, 1 is that we could, we could, we could achieve the restructuring that we said we could, take the costs out and continue to be competitive and gain market share at the same time and I think we've demonstrated that we've been able to do that. And if we're able to do that and only that, we'd have a decent return on our money. But the reason to write the check of the size of which I and all my partners wrote was because we really did believe that the market actually would return to growth and I still believe that and I think the traction that we're receiving today on digital demonstrates that.

Now, the question is, is that growth today, is it a year or two from now depending on the rate of the digital increase and the rate of the physical decline. I think the one thing I'd like to say about physical declines is that while the sound scan data in the US has not been robust certainly this year, we've consistently said, we think this is a more of a company phenomenon than a market phenomenon. As I mentioned, our own physical sales are off less than 1% year to date, in a market that claims to be off 8 or 9%.

But I think a lot of that decline really is around the Sony/BMG merger and the difficulty that they've had in the first year of executing that merger. But I don't think it's indicative of the overall market. Universal is growing and we're essentially flat. That's half the market. So it's hard to see how this is really a market phenomenon and that's kind of what we're seeing.

YOLANTA MASSIADA: Can you talk a bit about how you think the industry is combating piracy and whether that's going to assist in growing the overall market going forward?

EDGAR BRONFMAN: Look, I think the industry -- I think the industry has made a lot of progress, but I want to emphasize that the industry has adopted and is adopting very much a two-pronged approach. One is to enforce the law and to codify the law so that you - the Supreme Court unanimous decision on Groxster was very important to the industry. But the far more important opportunity is for a legal, robust, alternative for the industry and normally there are over 300 legal online sites. They're all becoming increasingly robust.

But I would tell you that they're all still pretty nascent. All of these services are going to be able to do far more with far greater speed and far more programming a year, two years, five years from now than they can even do today. And as those services become more robust, as they become more convenient, as they become day and date, so that people can get their music as fast on a legitimate site as they can on an illegitimate site, I honestly believe that the illegitimate sites will become more and marginal.

I would like to make the general point, and I've made this before, I do - I absolutely admit that free is a compelling consumer proposition. But I want to make the point that there are a lot of free things on the Internet that no one plays any attention to. Free in and of itself is not what drives people to music. What drives people to music is they love music and they love sharing the music. They love recommending the music, the love the community around discussing the music, et cetera. If we can capture that in a legitimate site, we're going to get more and more and more of that share. And that, I think is the approach the industry has now adopted and we can only adopt that as a result of significant support from various technology partners that make that possible. But I think you're going to see the industry continue to make progress against pirates.

UNIDENTIFIED COMPANY REPRESENTATIVE: Edgar, in the transition to a music-based content company, how do you get distributors to pay you more?

EDGAR BRONFMAN: Well, I - by asking that -

UNIDENTIFIED COMPANY REPRESENTATIVE: More than they have in the past?

EDGAR BRONFMAN: Generally we just -- we ask them.

UNIDENTIFIED COMPANY REPRESENTATIVE: And then they say no and then they say -

EDGAR BRONFMAN: Well, they don't really say no. I have to tell you that it's very important for distributors to have our content. It makes their services more valuable. And really, in large -- oftentimes we're really not asking distributors to pay us more money. We're asking consumers to pay us more money and the consumers are the ultimate arbiters of value or not of value. So, if we put a Madonna 12.99 bundled album out there at the same time as we put a Madonna 9.99 digital album, both of them on iTunes, it's interesting to note we sold more of the 12.99 version. It's clear consumers are willing to pay more money for additional value.

But also, services like AOL, like Yahoo!, like the on deck portals in the telephony world, they want our content, it's an important part of their service and to date we've been able to conclude agreements with all of these players to be paid for our video content as well as our audio content.

UNIDENTIFIED COMPANY REPRESENTATIVE: What's Warner's view of the risk of unbundling in the digital world and maybe a second part of that is what are the economics to the company of digital versus the physical at this point? And how's that going to change, how's that going to evolve? Give us a full rebut if you would.

EDGAR BRONFMAN: First on the economics, while we haven't been specific exactly, I would say that at the sort of contribution margin we haven't got 12 contribution margin points' improvement on digital. That includes a significant, actually significantly greater margin improvement which is reduced by increased royalties both to artists and to publishers, and this is just on the recorded music side. Obviously being the second largest music publisher in the world, we benefit from part of that enhanced margin, even on our music publishing side. And I expect that that will roundly continue -- that margin improvement.

That margin is somewhat enhanced above the numbers I've just explained by the current mix, which skews heavily towards catalogue versus front line. So you have almost the reverse - you've got one-third catalogue two-thirds in the physical world and almost the reverse in the digital world. I don't know how long that lasts while that lasts we obviously have a higher contribution even than the one I mentioned as a result of that improved mix.

I think on the - I've just forgotten the first piece of your question, which was?

UNIDENTIFIED COMPANY REPRESENTATIVE: It was just the view of unbundling.

EDGAR BRONFMAN: Look, I've said this consistently so I've either been consistently right or wrong, but I still hold the same view, which is that unbundling is the single greatest opportunity that the music business has had in a very, very long time. We're the only content that, where unbundling is, I think offers the consumers so much. Because your favorite 100 songs will not be my favorite 100 songs, won't be anybody's favorite 100 songs out here.

And so the ability for consumers to aggregate the content in precisely the way they choose is a phenomenal opportunity for music. If you tried to do that with film or with books, you're not going to take a chapter from Hemmingway, or a chapter from Gabriel Garcia Marquez and create a novel. You're not going to do that with films, you're not going to do that with any kind of content. Music is made to be unbundled. And if you own a library as large and robust as the Warner library, be it recorded music or publishing, you're going to benefit from that phenomenon.

YOLANTA MASSIADA: Can you talk about the components of digital risk downloads, subscriptions and mobile content? What do each of those represent, is it essential to your revenue at the moment and which are more profitable for you? Which would you prefer to see grow more in the future?

EDGAR BRONFMAN: Well I would say we're frankly indifferent in terms of margin on downloader subscriptions and models. So we like to see them both and we'd like to see them grow and pricing on the mobile platform for the moment is higher than pricing on the download model because you get a bunch of different things including dual delivery and mobility et cetera. But frankly we want to fill the music world the consumers want to consume it and we don't see a lot of margin difference between the various models.

I think what I can say in terms of how our revenue breaks down and we've been - we've set a limited amount but about three quarters of our revenues so far as of fiscal '05 were U.S., about a quarter were international and the U.S. being a more PC centric market digital downloads represented the greatest part of our U.S. revenue. But we see mobile moving forward dramatically and quickly and we also see the beginnings of some real attraction with subscription model.

We've always suggested it's going to take the subscription model a little longer because in order for people to sort of recognize that they want to invest on a monthly basis, they need to have some history to know how much they would be spending on an a la carte basis and until they collect a little bit of history it's a little difficult for them to move to a subscription device and then - excuse me - to a subscription model. And then on the device side the iPod obviously in the U.S. has been overwhelmingly successful. It's not compatible with any of the subscription models yet. So as either it moves to a subscription model I have no clue whether it will or whether more competitive devices come out, I think you'll see increase in the subscription take up rates.

YOLANTA MASSIADA: Can you just talk a bit more about why you think mobile's got a big future, particularly in the United States, where it hasn't been such a big component of the total pack?

EDGAR BRONFMAN: Well because I think while the United States cellular market has been much slower to adopt network standards that exist in Europe -- by that I mean both 2.5G and now 3G-- the U.S. infrastructure has not been nearly as robust as the international infrastructures. I think you'll see probably within a year or two a much greater level of parity in terms of the quality of the networks and the broadband speeds that exist.

And I very much adhere to the point that I heard someone from Vodafone make which is that the cell phone has now risen to be the third thing without which people don't leave their homes, right, their money, their keys and their cell phone. It's what everyone already has and therefore it's not something that needs to be adopted. It's not something we need to get people to get to buy. It's not something other than we simply need to get people to use and I've got an 18-year old daughter just turned I was about to say, 17 - just turned 18 years old and I don't need to give her lessons how to operate a cell phone. She needs to give me lessons. And every time there's a new opportunity to buy something or do something cool on the cell phone she knows about it and she's doing it. And so I think - as the networks are becoming more robust we already have the device in people's hands I think you'll see much more significant adoption of entertainment products generally and music products specifically on the mobile platform.

Unidentified Company Representative In last week's earnings call you highlighted you're gaining market share in the U.S. Do you think that's sustainable?

EDGAR BRONFMAN: I do. I think we've got an industry leading management team. I would say having been associated at Universal for so many years, they're a very strong team. I think there's now another very strong team in the U.S., and I think it's Warner and I think we said even when people were concerned that we were restructuring and therefore we were going to be giving up market share, we said we don't see it that way. We think we will restructure and gain share and that's exactly what we've done. I

think we can continue to do it but I also emphasized on the call that that market share growth will be profitable market share growth and we're very focused on margin share, which is how we refer to it internally, making sure that the market share gains we make are profitable as opposed to simply unprofitable revenue.

UNIDENTIFIED COMPANY REPRESENTATIVE: How's your A&R strategy today different than what it's been in the past?

EDGAR BRONFMAN: I think our A&R strategy is different in really two fundamental ways. I think we've demonstrated both a real ability to renew artists' careers which has not been the focus generally of many music companies. And if you look at just a Green Day or a Madonna, for example, and what's happened to them with their latest album releases we've been very focused on positioning them. Now the good news is they both wrote great albums which is difficult to do it if they don't. But both with Green Day and Madonna we spent a lot of time repositioning the band, repositioning the products and in fact when we released Madonna the first thing we released was a mobile ring tone. We didn't release a single - we released a mobile ring tone first as a way of indicating that she was still very much of the cutting edge of things.

So I think we consistently do a better job there. And also the other thing that we do is we created this incubator model because we decided to leverage what we inherited was the strongest independent distribution network in the U.S. which Warner had. We've now built it significantly beyond where it was and we've leveraged that distribution capacity into a relationship with independent labels where we upstream artists that are gaining traction in the independent marketplace. We share those economics with the independent, but it's a much lower cost - much lower risk source of A&R for us. And we did this very quietly but really very comprehensively, so I think we -- between our distribution company and the breadth of deals that we did before anyone else was in that competitive arena, we have a significant and sustainable lead in that.

YOLANTA MASSIADA: Edgar, can you just talk about the opportunities for further cost cutting that - of Warner Music Group. You obviously have done a huge job in restructuring your cost base. Is there - first of all, is there an opportunity going forward and when you look to your earning growth over time as against primarily revenue dependent or other more revenue dependent or are there other things you can do to help margins?

EDGAR BRONFMAN: Well I think it really depends - I think it's revenue dependent only in the following sense, which is we think we've got a very leveragable model. Only a quarter of our fixed costs are fixed. And therefore as our revenue line expands and particularly as it expands through digital growth, our margins are going to increase.

It's revenue dependent in the sense that because two thirds - excuse me, three quarters of our costs are either variable or discretionary should that revenue line not grow, we have a lot of flexibility to cut costs further in a scenario where revenues will decline - were to decline. I don't see that scenario occurring but it is a very flexible model. I think if we continue to see revenues - the opportunities to expand revenues we've got a very good cost base with now. As I said it's very flexible. Only a quarter of it's fixed and I think we'll see margin opportunity by both revenue gains generally and specifically to be some day come from digital further margin opportunity as a result of that.

YOLANTA MASSIADA: And just looking forward to your next first quarter. You indicated in your earnings call week that the first quarter had some difficult comparisons with a year ago but that quarter was down on the year previous. Can you talk through what the issues are that you see in the third quarter?

EDGAR BRONFMAN: Well, look we try not to give - I think we've been recently good at not giving guidance. I think what -- the point we fundamentally wanted to emphasize is we don't manage our business quarterly and we're not going to manage our business quarterly. We manage our business and really feel that we ought to be judged on an annual basis. If I can make one comment before our newest board member leaves the room, but our newest board member who joined us about three or four weeks ago is Shelby Bonnie(ph) the chairman and CEO of -C-Net who was kind enough to stop in for a couple of minutes. Shelby, it's great to have you on board. Thank you. So - I lost my train of thought.

UNIDENTIFIED AUDIENCE MEMBER: The outlook for the third quarter.

EDGAR BRONFMAN: So what we said was even when we were out on the road. Here's what our goals are for the year and I think we've achieved those goals. We outlined on the call some of the goals for our '06 year. We had a lot of significant product last year, we've got some good products this year. We also by the way have a much weaker dollar this year than we had last year among other things. And there's always going to be these kind of quarterly comps released this year that didn't happen last year or vice versa which is why we really don't want to get into these issues around quarters.

I understand the market will make its judgments if the market will make its judgments but we're not going to throw a release before it's ready into a quarter because it will improve a year over year comparison. Any quarterly compare is an accurate photograph but it's not necessarily a good indication of the health or the growth of the business particularly in my view - particularly in the music business.

UNIDENTIFIED COMPANY REPRESENTATIVE: Edgar, what's the artists overlap between Warner's Music publishing and the recorded business and is there any particular benefit in having these under the same roof?

EDGAR BRONFMAN: I think there is a real benefit to having both the music publishing rights and the recorded music rights. Historically that's not been the way the industry has been organized so I think our overlap excuse me, is roundly in the 15% range. It's not a huge overlap but we're very focused on changing that dynamic going forward because what we see as we get into these many new digital customers if - just using as an example a Vodafone has a promotional window that opens up and they want to promote an artist for us to have try and go clear the publishing rights from some other company or if we've got the publishing for the quarter music rights from some other company really just slows down the process and at the end of the day they'll go not in every instance obviously where it's a major superstar but in lots of instances to where they can get their rights cleared most easily. So we believe we can make a case and are increasingly making those cases to our artists to having music publishing and recorded music rights in the same environment's actually helpful to them and to us.

UNIDENTIFIED COMPANY REPRESENTATIVE: And what's the artists recent activity?

EDGAR BRONFMAN: It's been very strong. We actually in the last - almost all of our signings in the last three or four months ever since we brought Richard on board - Richard Braxton the new CEO of Warren Chappell, have been - Warner Music Artists. TI a leading rap artist comes to mind, NEWS one of our largest rock acts in Europe comes to mind so we've been very focused on trying to convince artists and we've actually been getting a lot of traction in that regard.

It used to be that managers and lawyers were trying to get the most absolute dollars upfront and therefore it was where the music company would double down and make as large an advance in recorded music and then turn around and make a very large advance in music publishing and lawyers and managers always felt if they split that they could actually get more money upfront for their artists but I think given the way the business is evolving even artists - managers and artists lawyers are seeing that there's actually more revenue opportunity by aligning. So we're working very hard and we're making some progress in that regard.

UNIDENTIFIED COMPANY REPRESENTATIVE: How will you restore growth to music publishing?

EDGAR BRONFMAN: Well I think music - the music business grows as a result of a massive increase in distribution. Remember today, 94% of our revenue still comes from physical distribution, which is 50,000 retail stores or less globally. So to the extent that every cell phone is eventually a point of distribution - you're going to go from a few thousand to a couple of billion. In the meantime you're going to go from a few thousand to 100 million and that's a huge increase. We have a huge increase in inventory because not only do you have all the world's big music available digitally as opposed to the inventory in the store but that music is available in any combination.

So you have an infinite increase in distribution. An infinite increase in inventory. You have an increase in SKUs because you're making now not just songs or albums but music videos - making music videos, ring tones, ring back tones. You're now windowing the content. You're getting paid for video and it's obviously way too early to know how large video will be but video clearly is going to be a major part of what we do.

So frankly I don't know how we don't grow our business. I think the only question is what's the real inflection point. When does that growth in digital overtake the marginal declines or the larger declines or the growth of the physical business? No one's quite sure where that physical business comes out. And so it's hard to put a point on a dateline as to exactly when that inflection point occurs but I don't think there's any question that it occurs. I think the only debate is timing.

UNIDENTIFIED COMPANY REPRESENTATIVE: So what's the long term strategy for Warner? Do you want to get bigger meaningful acquisition opportunities among the independents out there?

EDGAR BRONFMAN: I think well clearly we'd like to get there because we've got to grow our business and as we grow the business I mentioned our margins expand. And I think if we can prove to the market that we can grow our business we're going to be a more highly valued company and that's what we're paid to achieve. I think we can do that organically. I do think there are opportunities to expand our business model beyond our own organic growth. Obviously, I don't want to preview those here but we're very focused on accretive decisions.

So whether we're trading off, whether we should be paying down debt, purchasing a company, purchasing our shares, paying a dividend, we look a what is the most accretive opportunity for our shareholders. Remember we're the company that throws off a lot of cash and does not require much cash to grow. So the fact that we might have a lot of cash and not need to reinvest it is not in any way an indication that we don't believe in the future of the company. It's just that a music company per se doesn't require a lot of capital in order to generate a lot of credit.

UNIDENTIFIED COMPANY REPRESENTATIVE: Questions from the audience? Just wait for the mic.

UNIDENTIFIED AUDIENCE MEMBER: Thanks. Two quick questions. First one was on the balance sheet. You guys said you're comfortable with the level of debt you had so I was wondering if you guys were thinking about turning out some of that short term debt? And then second question is on the digital side. It seems like Apple's had a - iTunes has a very strong franchise and obviously there's technical issues there with how the iPod and the ITNs work with other systems. And I was wondering have you guys just thought about starting your own or why hasn't Warner taken a more active role maybe in setting some sort of standards that are universal in the industry?

EDGAR BRONFMAN: (off mic) Yes, I've got my CFO here that can answer your question on this.

MICHAEL FLEISHER, CFO, WARNER MUSIC GROUP: (inaudible - microphone inaccessible).

EDGAR BRONFMAN: Michael Fleisher our CFO. Michael why don't you stand --

MICHAEL FLEISHER: We've actually at this point through hedging we fixed about 76% of our debt in the fixed rates and we're carrying about a 6.6% weighted average rate. So we feel pretty good about that.

EDGAR BRONFMAN: I think on the download side, I don't think Warner has any particular skills as a retailer. I don't think that's what we do nor do I think it's likely over time that there's going to be a great store of margin at the digital retail level. I think those retail services will be part of a broader service - or a broader business model. In the case of iTunes it serves the device sales of Apple.

In the case of Yahoo! it creates a more robust business system. In the case of Verizon it will do the same et cetera. So to be sort of an independent retailer I don't think is a great margin opportunity nor do I think it meets our skills. I think what we need to do is make sure that we're working closely with our retail partners, Apple, Yahoo!, everybody to create the best consumer experience for consumers - digital music experience for consumers. And I think that's where we can add value.

UNIDENTIFIED AUDIENCE MEMBER: You mentioned that three quarters of your costs are variable and you said if for some unfortunate reason the top line starts to deteriorate meaningfully there's lot of flexibility to cut costs further. Can you site specific examples and what parts of the business you can cut costs? Maybe just kind of give two or three examples of where you think there could be some further cost cutting if that's necessary?

EDGAR BRONFMAN: Sure. I mean, again, to be clear what I said was three quarters of our costs are either variable or discretionary. So variable in terms of royalties. So those costs will come down to the extent that we're selling less. Our revenues go down. Our variable costs in terms of royalties come down with it. Currently, we're investing behind growth so we're spending money on A&R. We're spending money on marketing. If we took a view that the market was going south we'd actually be spending less money on A&R and marketing. And I guess the last point I'd make is we carry a certain amount of fixed costs just in terms of our infrastructure.

Again, if you were to take the view that the market was taking a downturn we'd find a way to live with less infrastructure. So I think it -- it's an extremely flexible model that allows us to manage both our cash flow and our margins pretty aggressively.

UNIDENTIFIED AUDIENCE MEMBER: A question I'll ask is royalties. It seems surprising to me that in the last couple of years, despite all the major restructurings going on by all the majors together and the concerted effort to cut costs, that artist royalty demands haven't been contained. Is that what you've been finding in Warner? And also if that is the case then isn't all the upside you're talking about just going to get eaten away by even by greater demands by the top artists who you're all competing ferociously to try and recruit?

EDGAR BRONFMAN: Well, I think there are two premises there that are simply inaccurate from my perspective. Certainly -- and then I'll add a perspective. Having run a movie business, I think coming into the music business in terms of artist royalties, I've died and gone to heaven. So one can talk about artists' royalties, but frankly, as I think I said at the outset, the artist royalties in the music business are really much more contained than they are in most other entertainment businesses, particularly because you're signing long-term artist contracts.

So when we sign a contract, and this is not similar to the rest of the industry, we generally sign an artist to five or seven albums, all of them at our option. So we'll make the first album and then we essentially almost always have the option as to whether or not we even make a second album. But in any case, at our option, we have the next five or seven albums -- seven is more normal.

Given the fact that artists make an album roundly on average every two-ish years or so, it's -- that first contract is generally, for most artists, the productive life of that band or artist. So we don't see runaway artist royalties. We don't see that as revenues increase that the majority of those revenues will go to artists, though we do feel it's important to have the right economic sharing relationships with artists. And so we balance those two things.

I think a couple of things that may have made some headlines, but I think are very misleading, is what do you do when you have a superstar artist who finishes their first contract and wants to be renewed? And then you read about huge contracts that have been signed for -- I won't name a specific artist because I don't want to focus on any particular artist or record company. And largely speaking, those huge renewals are -- have been unprofitable in the aggregate. Some of them have been profitable, but in the aggregate those huge renewals are generally not profitable because it is difficult for an artist to sustain for the second 15 years of their career the same kind of interest and sales that they've been able to generate the first.

Now, that's clearly not been true of an artist if we're lucky enough to have a Madonna. It's clearly not true of a band that I re-signed when I was at Universal called U2, but it is often true. And so we're very careful if and when we're faced with that kind of situation as to whether or not it makes economic sense for us to play that game. But those are few and far between. The fundamental balance of margin I think is very favorable in this industry with regard to the cost of talent.

UNIDENTIFIED COMPANY REPRESENTATIVE: Edgar, do you think the core of this business, which has been music, do you think the music, the talent is fresh and vibrant now? There's been some criticism over the years that there hasn't been anything -- any new genre that's come out here. Do you -- is there any rocks left to be unturned in this business? And just some general thoughts in that regard would be interesting.

EDGAR BRONFMAN: I think there's always rocks to be overturned and I think there will be -- I think there will be new genres. I think the hip-hop genre and the rap genre has really been -- people said it will be here today, gone tomorrow -- 20 years into it, it is still a growth genre and it continues to evolve. We see lots of interest in things called, for interest, reggaeton (ph), which is kind of a hip-hop/reggae kind of fusion. Whether that's a whole new genre or a version of this genre, I don't know.

And then I think the other thing I would say is I don't think my 18-year-old daughter thinks that there's lousy music out there. I think part of it is we get older and it doesn't sound as interesting to us. But in talking to her and her friends -- my 25-year-old, my 23-year-old -- they're huge fans of various artists. And I think an Eminem or a 50 Cent, neither Warner artists, are as meaningful today as a Billy Joel or Stevie Wonder might have been to me.

So I'd love it if we had some music -- more music that I love. James Blunt (ph) being one who's turned into the largest selling UK artist of the year and probably of the decade, and a huge hit across Europe and we're starting to break him here in the U.S. -- a singer/songwriter who I think is as good as anyone who's come along in a very, very long time. But I think part of it is I'm 50 and I just don't have the same kind of interest in the music that my kids and their contemporaries do.

UNIDENTIFIED COMPANY REPRESENTATIVE: Any last questions from the audience? We've run just right up to the time limit. So, Edgar, thank you very much.

EDGAR BRONFMAN: Thank you very much.



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