

*BUSINESS REPORT
ON THE YEAR ENDING ON 31 DECEMBER 2017*

(all balances are indicated in thousand HUF unless otherwise specified)

1. The operational environment of Artisjus in 2017

1.1 Legal environment

Following the re-regulation via the law on collective rights management in 2016, there were no substantial modifications in the basic rules on copyright in the course of 2017. At the same time, from the transformation of the general regulatory environment regarding the functioning of the Society, we need to underline the reform of the procedural rules. (Among the latter, Artisjus is the most directly affected by the new Code of Civil Procedure, but we also need to know and apply the Code of Administrative Procedure and the recently codified rules on criminal procedure.) Moreover, the continuous modification of the legislation related to civil societies should also be highlighted. In addition to that, our duties include the monitoring of the judicial practice of the legislation earlier approved and pertaining to our daily work (e.g. most importantly, the Labour Code and the Civil Code) as well as that of the changes affecting the stakeholders of the market areas concerned by our activities. Furthermore, the legal environment indispensable for the use of the constantly evolving national electronic administrative systems also needs to be tracked continuously.

Therefore, the above changes crucially affecting the functioning of the enforcement of rights require and will continue to require an increased amount of legal work in the upcoming years.

1.2 Evolution of our relations with authorities

The usual comprehensive supervisory audit was carried out by the Hungarian Intellectual Property Office (HIPO) in 2017 as well, which examined the operation of the Society with respect to its compliance with the regulations on copyright. This year the Society was requested to prepare its procedures for dealing with complaints. Accordingly, we prepared our "Procedures for Handling Complaints" as well as a "Preliminary Data Management Brochure", which were both made available on the website of the Society as requested by the notice.

In 2017 several authors contacted HIPO in individual cases which they deemed to be in conflict with the Distribution Rules (in the subject matter of concert, private copying and background music distribution). In light of the information supplied by Artisjus, HIPO did not deem it necessary to launch a supervisory procedure in any of those cases. In relation to that, certain authors have been trying to enforce their individual demands vis-à-vis the Society in ordinary civil proceedings in 2018.

Based on the order of the Competition Authority closing the proceedings no. VJ/15-166/2014 (Competition Law), we elaborated in detail the regulations and administrative procedures about the procedures related to the reimbursement of the private copying fees claimed by private persons. The information brochures were prepared for those concerned, and we provided the technological background necessary for the administration and assuring the receipt and management of the claims, and thus we managed to launch our customer service at the beginning of 2017. Moreover, the customer service operates its own website (<http://www.maganmasolasidij.hu>). In accordance with the provisions of the above order, Artisjus conducted a media campaign about the possibility of private

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copying fee reimbursement to private persons in order to duly inform the public. Interest in the reimbursement of private copying fees has been insignificant so far.

In 2017 a consumer survey and an economic study were carried out in harmony with our commitment in relation to the case. These documents had to be coordinated with the other Hungarian collecting societies, and then submitted to the Competition Authority. According to our commitment, the conclusions drawn from them were also presented during the procedure regarding the approval of the "Ü" tariff chart. Moreover, we issued the statements prescribed by the order of the Competition Authority in due time, and we completed the relevant correspondence and organisational work as necessary. In 2017 we had already started the planning of the achievement of our commitments for the year 2018. (It was already in 2018 that we were informed that the Competition Authority launched follow-up proceedings in relation to certain points of the approved commitments.)

Artisjus submitted its tariff charts for 2017 for approval in due time, i.e. by 1 September. Following the procedure conducted by HIPO, the tariff charts were approved by the Minister of Justice, and they were all published in the Official Journal by 1 January 2017.

2. Royalty collection and expenditures in 2017

In the year 2017, the total amount of royalties collected by Artisjus was 19,943,300 thousand HUF, which constituted a 7 per cent increase compared to the reference value of 2016.

	2016 thousand HUF	2017 thousand HUF	%
Public performance royalties	5,474,749	5,590,395	102.1
Broadcasting and cable television royalties	4,148,935	4,642,806	111.9
- <i>from which cable television revenue</i>	<i>776,140</i>	<i>1,957,883</i>	<i>252</i>
Private copying levies	8,029,129	8,645,360	107.7
Mechanical royalties and jukeboxes	180,529	249,158	138.0
Online	330,716	251,919	76.2
Royalties on reprography	7,534	6,034	80.1
Royalties for foreign broadcasting organizations	136,042	212,782	156.4
Royalties from abroad	280,078	344,846	123.1
Total:	18,587,712	19,943,300	107%

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Within that, the proportion of the royalties collected on behalf of rightholders represented directly by Artisjus, on that of Hungarian collective management organizations representing other rightholders and of foreign television channels represented by Artisjus was the following:

	2016	%	2017	%
Those represented by ARTISJUS	11,979,802	64.45	12,785,531	64.11
Those represented by HUNGART, FILMJUS, EJI and MAHASZ	6,471,868	34.82	6,944,987	34.82
Foreign broadcasting organizations	136,042	0.73	212,782	1.07
Total	18,587,712	100.00	19,943,300	100.00

Based on the above, it can be stated that Artisjus successfully achieved its governing Financial Plan for the year 2017.

2.1 Live and background music public performance market

While the public performance basic tariff levels of Artisjus did not increase in the past 5 years (on the contrary, fees in the catering industry had even been reduced by 19 per cent on average by 2015), royalties collected from live and background music public performance grew by 2.1 per cent compared to the 2016 base value.

One of the most gratifying components of the annual revenue is the steady improvement of payment discipline: the ratio of the revenues received in 2017 and the sums invoiced in the same period attained 86.9 per cent (in other words, for every 7 HUF charged for use, 6 HUF are actually paid). (In 2010 this ratio was only 70.1 per cent.) The fact that now 93.9 per cent of the revenue is paid before the enforcement of rights by payment order also tells a lot about the process. What is more, the majority of the payments are completed even before the sending of a demand note (in 2009 the number of demand notes was more than 70,000 – by 2017 this figure had been reduced by half).

Moreover, based on the sectoral agreement – and after the multi-year moratorium excluding any increase in tariffs, going totally against the market trends, but voluntarily undertaken by Artisjus –, the fees adjusted to the actual occupancy figures of the hotel industry constituted one of the sources of the increase as well.

2.2 Broadcasting and cable television market

In 2017 the sum of royalties collected from radio and television broadcasting as well as cable televisions rose by 11.9 per cent.

The year 2017 did not bring any major reshuffling in the radio market, the collection was performed in due order. Unfortunately, in the domain of television we were unable to conclude a contract with

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appropriate and competitively neutral conditions with TV2 Group, so these channels do not participate in the distribution due to their lack of fee payment (except for certain channels of TV2 Group for which cable operators had provided encrypted broadcasting royalties that could be distributed). At the time of the finalization of this business report, there seems to be no alternative to the launching of proceedings.

In accordance with our earlier practice, we carried out the inspection of 11 radio organizations and 9 television programme providers in 2017. In some cases the audit covered several years and exposed a significant deficit, the recovery of which has been started by the Society.

Regarding the collection of fees in the cable market, the decisive event of the year 2017 was that the so-called Global Agreement (GLA) expired at the end of 2016, which had been in force for quite some time between Artisjus, the Hungarian Cable Communications Association, and German public service and commercial channels. The reason for the non-prolongation of the contract was the royalties disputes between the cable providers and the GLA partner televisions. Nevertheless, Artisjus continues to hold the power of representation for the channels concerned with respect to the conclusion of the use agreement with the broadcasters.

An important change – also affecting Artisjus – in the cable market was that six of the leading cable networks quit the Hungarian Cable Communications Association simultaneously, and as of 1 January 2018, they have pursued their professional and representative cooperation in the framework of the Broadcasting Council for Collective Bargaining (HÉT). DIGI, Invitel, the Hungarian Telekom, PR-Telecom, UPC Hungary and Vidanet announced their secession at the Board Meeting of the Hungarian Cable Communications Association on 12 December 2017.

2.3 Private copying levies

In 2017, the amount of royalties collected by Artisjus for the private copying on blank video and audio carriers showed a 7.7 per cent increase compared to the base value of the revenues in 2016.

The transformation of this sector, which had begun in the previous years, continued in 2017: the role of mobile phones grew steadily in private copying, and these devices have become increasingly dominant in the structure of the revenues. More than 2.5 million mobile devices are sold annually in Hungary. The revenues mirror users' habits and the memory storage capacities of the devices.

In 2017 the monitoring work gained extraordinary importance; its particularly efficient tool was the sales figures based on the turnover of the cash registers, which had been specifically obtained in the course of the market monitoring trips carried out by Artisjus. When these figures are contrasted with the accounts of the retailers found suspicious during an audit, deficits can be easily and efficiently exposed. In the future we will systematically apply this method in order to ensure the non-discriminatory spreadout of private copying fees, also in behalf of those contributors who pay their fees regularly and respecting the rules.

2.4 The sound recording licensing (offline mechanical) market

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In 2017, we registered an approximately 38 per cent increase in the collection of rights after mechanical music and jukeboxes. Regrettably, this result, which seems excellent at first sight, did not come from a system-level correction: this revenue can be put down to an extremely high, but ulterior settling of reports which had not been executed earlier by the BIEM publishers due to technical reasons.

At the same time, the royalty payments of the independent music labels dropped by 30 per cent in 2017. In all likelihood, this can be partly put down to the fact that it was in 2017 that labels were first asked to report not only about the number of copies produced by them in 2016, but also about the number of copies effectively sold. The aim of this inspection was primarily to ensure the reasonable distribution of private copying and background music royalties. We have reinforced our relationship with MAHASZ concerning the monitoring of the turnover of publications. The objective we have set ourselves is to be able to establish how many of the publications on a physical carrier can possibly become available for private copying and background music broadcasting, that is, for retail business accessible for consumers.

2.5 Online music market

In 2017 our revenues from the collection of royalties for online music amounted to 76.2 per cent of the base value. The reason behind that is the decline of digital downloading versus the trend of streaming. The use of streaming results in lower specific royalties, thus the transactional costs of their management are much higher while their administration also demands greater IT proficiency. Artisjus has been trying to keep up with this trend by the scheduling of its developments and the use of suppliers with optimized costs through international cooperation.

Another reason for the fluctuation of the revenue is that one of the partners has accumulated a significant debt on the VOD services, which still make up for a significant portion of its structure, while the 2016 base value was boosted by a considerable retroactive collection.

2.6 Administrative costs

In the year 2017, the administrative costs deducted by Artisjus effectively for its operation (i.e. excluding the obligatory payment of healthcare contribution after copyright) amounted to 18.63 per cent.

	2016	2017	%
1 Net sales revenue:	18,558,871	19,870,865	107
2 Administrative costs of the distribution of royalties carried over to the year following the target year	997,531	1,069,966	107
3 Administrative costs for the target year	3,113,627	3,332,618	107
4 Administrative costs of the distribution of royalties collected in the year prior to the target year	968,690	997,531	103
5 Total administrative costs (3+4)	4,082,317	4,330,149	106
6 Adjusted net sales revenue (1+2-4)	18,587,712	19,943,300	107

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7	Authors' healthcare contribution	872,853	615,548	71
8	Administrative fees deducted for operation (5-7)	3,209,464	3,714,601	116
9	Total administrative costs in proportion to net sales revenue (5/1)	22.00%	21.79%	-
10	Operational administrative costs in proportion to adjusted sales revenue (8/6)	17.27%	18.63%	-

The ratio of the sum collected and the sum effectively utilized by Artisjus for operation is indicated by the so-called **total expense ratio**, calculated with the methodology prescribed by HIPO, and it amounted to 13.9% for the year 2017.

3. Relations with members and right holders, communication

3.1 Membership data

The society membership of Artisjus continued to grow in 2017: the Society had 2,088 full members on 31 December 2017. At the same time, the number of non-society members mandating Artisjus for the collective administration of their rights was 17,134 persons.

3.2 Events and communication programmes

In the year 2017 Artisjus experimented with several innovative events and communication channels, which all proved a success.

Songs are all around us, they jazz us up and revitalize us: our songwriters give us value. It is with this key idea that our first campaign for the general public, #mutimithallgatsz has been launched. The aim of this promotion is to present the value-creating work of songwriters and emphasize the role that songs play in our lives. The central element of the project is a short video based on five double interviews, in which writer Judit Berg, actress Petra Hartai, stand-up comedian Zoltán Kóhalmi, writer and literary historian Krisztián Nyáry, and actress Eszter Ónodi talk about their favourite song lyrics. The short films also feature the composers of these songs: Livius Varga, Jenő Menyhárt, Balázs Szabó, Benedek Szabó and Zoltán Beck recall the birth of the works in question. The films focus specifically on lyrics, which help the spectators concentrate specifically on the creative work rather than on the performers and performances. The videos thus prepared were propagated in the social media, but in addition to the online pillar, the campaign had three other "legs" as well:

- Outdoor advertising: advertisement pillars, citylight, banners attached to roadside railings
- PR: press statements, PR articles, festival appearances (Fishing, Margó), video projections in nightclubs and at festivals
- Research: online questionnaire on the exit page of a dating site about what music means to people

In 2017 we searched for opportunities to appear in one way or another at public events attracting larger public attention and thus be able to address an audience that was already open to culture. The

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final act of our #mutimithallgatsz campaign was a one-hour-long discussion at Margó Festival where Nóra Winkler chatted with two faces of the campaign, Benedek Szabó and Judit Berg about the birth of their texts.

At the end of May, GESAC organized an event called *Meet the Authors*, where the creators of Europe – including composers, songwriters and writers – submitted a joint appeal to high-ranking representatives of the European Parliament, the European Commission and the European Council. The event's primary aim was public affairs, but it sought to reach out to the widest possible circle of MEPs, so it had some especially popular components. The aim of the appeal submitted by the artists (and in fact, of the entire meeting) was to convince the decision-makers of Europe to take some effective measures to ensure that the authors of works accessible online would receive a reasonable sum for the currently unjustifiably underrated plays of the online platforms (e.g. YouTube) in terms of copyright – this is the "transfer of value" phenomenon.

Upon the invitation of Artisjus and GESAC as the organizer, the event was attended by some Hungarian participants as well. Alongside the General Director and the Strategic and Communications Director of Artisjus,

- singer and composer Bea Palya;
- singer and composer Zoltán Czutor, Artisjus Board Member;
- EU Commissioner Tibor Navracsics and Szabolcs Horváth, a member of his cabinet;
- Ambassador Olivér Várhelyi, permanent representative;
- Katalin Lubóczki, diplomat specialized in competitiveness;
- Bernadett Petri, assistant of Maltese MEP Comodini, an important agent in the topic of copyright reform;
- Eszter Németh working in the cabinet of MEP József Szájer;
- and Zoltán Pancza, cabinet member of MEP István Ujhelyi were also in attendance.

Meet the Authors, which attracted a broad spectrum of participants, was organized by GESAC in a way so as to allow the individual national delegations to discuss important and relevant copyright issues in the framework of a separate lunch. Therefore Artisjus arranged for a separate lunch with the Hungarian participants on site, where they could hear about the topic in their mother tongue and from the mouth of well-known and beloved Hungarian authors.

The strongest pillar of the campaign was public relations. A press release was issued about the campaign itself as well as the findings of the research carried out in relation to the campaign. Native advertisements and paid contents were also published as part of the campaign. The campaign laid a great emphasis on the inclusion of discos, nightclubs and music festivals. This approach produced a notable success: numerous clubs joined us both in Budapest and in the countryside, and our videos were projected at each of the popular music festivals. For the most important journalists, we manufactured the campaign's iconic T-shirts – which featured their favourite lyrics, of course.

3.3 Online communication

Each member and commissioner of the Society may register in our online information platform for authors (SZIR), i.e. currently about 19,000 persons. By the end of 2017, altogether 56 per cent of them, i.e. 10,623 authors and legal successors took advantage of the possibility to register, of whom more than 6,000 have been managing their affairs online ever since. As the figures indicate, 80 per cent of them log into the system 1–10 times a year.

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In addition to the already existing online channels (website, Facebook, Song+Writer blog, Twitter), we set up our own Instagram account in 2017 in relation to the #mutimithallgatsz campaign so that we could share work photos, and encourage those interested to share our contents on Insta during our appearances in the countryside and take part in games. In this case the primary aim was to reach out to the younger generations (youth in their teens and twenties). We are planning to optimize our social media use in the course of 2018, with a much heavier accent on Instagram than at present.

4. Distribution and documentation

The distributions related to 2017 took place in due order. The most important novelty in the television distribution was the new model introduced as a result of multi-stage preparations, in which royalties paid after works of functional use (e.g. signals) are treated from the outset separately, according to the ratio established for each channel, and their distribution is also carried out separately.

The principal modifications of the Distribution Rules in 2017 were the following:

- the modification of the deadline of the distribution of background music royalties executed on the basis of data provided by background music providers (with a quarterly frequency just like before)
- the modification of the background music and private copying distribution for sound recording data (instead of the annual 5,000 earlier, the maximum number of carriers taken into consideration for the purposes of distribution can be 3,000 for the three-year period in question, or in the lack of plays on the radio or on television, maximum 1,000)
- the modification of classical music concerts and background music distribution (one piece may figure in the distribution with maximum 15 performances).

5. Social-cultural activities

In harmony with the governing legal frameworks from 2012, Artisjus is only entitled to provide allowances (through its foundations: Artisjus Music Foundation and Artisjus Literary Foundation) as a supplement to pension or as a social benefit for persons in need. The amounts deducted for cultural purposes were transferred by Artisjus to the National Cultural Fund in 2017 as well. In accordance with the provisions of the Act on Copyright ("Sztj.") and the Act on the Collective Administration of Rights ("Kjkt.") and in line with our Sponsoring Policy, our professional sponsoring activities are carried out directly by the Society.

6. International environment

Artisjus continues to take part in the work of the global confederation of rights management organizations (CISAC) and the European regional organization (GESAC) as a member of the board of both bodies. The representatives of our individual professional fields participate actively in the international professional information exchange of collective management organizations. In 2017 again, Artisjus hosted the international seminars and trainings organized by the European regional directorate of CISAC/BIEM.

One of the key components of our international network of relations is the Armonia Online platform. In 2017 we conducted negotiations about its extension, proposing the elaboration of a loyalty programme to be extended to the members of the collective rights administrators concerned. We are

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planning to introduce the latter in 2018, offering exclusive, European-level benefits to our members in various service categories.

7. The development of the Artisjus work organization

The increasing work load of the past years (i.e. the growth of the number of registered authors, declared works and turnover volume to be processed) as well as the domestic and international challenges in terms of business and efficiency faced by collective rights administration have compelled the direction of the work organization to introduce changes in the structure that had been operating with relative stability for decades.

The aims of the structural and work organizational changes announced at the end of 2017 (and to be applied from 1 January 2018) are the following:

- to couple the responsibility of royalty collection by types of rights, with the responsibility to collect and process usage data, in order to meet the ever higher quality standards regarding distributions;
- to assign online and offline (broadcasting and cable) media royalty collection under a common direction and responsibility so as to mirror media convergence;
- to bring together (and occasionally, to create) those resources under the Business Transformation Office that will need to be available for the other business branches with a view to the successful completion of the tasks of the near future;
- to group together all those services under the Department of Right Holder Services that we provide to our members (documentation, distribution, Authors' Relations Team).

The above goals are implemented by the work organization re-arranged in the following structure:

DIRECTOR GENERAL (CEO)

FINANCES

Finance and Controlling
Core Business Finance
Accounting and Facility Management

BUSINESS TRANSFORMATION

Communication
Human Resources
Project Management
Product Owners
Process Engineering
Business Intelligence

LEGAL AFFAIRS

INFORMATION TECHNOLOGY

MEMBER SERVICES

Authors' Relations Team

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Distribution
Documentation

PUBLIC PERFORMANCE LICENSING

Branch Offices
Concerts and Events
Back Office
Legal Disputes

MEDIA, ONLINE AND MECHANICAL LICENSING

Media
Online and Mechanicals
Private Copying

8. Miscellaneous issues

The Society pursues no research and development.

The Society has a single business location (1016 Budapest, Mészáros utca 15–17.). Moreover, it has local offices in the following towns:

- Debrecen
- Győr
- Miskolc
- Pécs
- Szeged
- Zalaegerszeg

In the year 2017, the Society had altogether 166 active full-time employees.

The Society has projected a net royalty income of 14,317,489 thousand HUF (without VAT and basic administrative fee) for the year 2018.

Budapest, 14 March 2018



Dr. András Szinger
Director General