

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

1. The operational environment of Artisjus in 2013

1.1 Legal environment

In 2013, too, we had to adapt continuously to the changes causing significant transformations within the Hungarian legal order.

The change of regulations affecting our Society the most directly is the amendment of Act No. LXXVI of 1999 on Authors' Rights. The act was amended both in spring and autumn of 2013. According to the spring amendment, the opinion of those obliged to pay copyright fees must also be obtained for the survey to be submitted for the justification of the tariff chart for blank carriers. The scope of information to be made public (to be shown on the website) has also become broader.

The amendments of 2013 pertained to free use in relation to public performance (national holidays). They also provided that the records of the Hungarian Intellectual Property Office (HIPO) would be authentic (in the case of data not submitted by the collective management organizations).

The unexpected amendment of the Act on Authors' Rights of autumn 2013, before which copyright owners had not been consulted in any way, modified the regulations regarding the sums that can be allocated by the Society to social-cultural purposes for the sake of the copyright owners, and it also prescribed that from 2014, 25% of the blank carrier rights collected by Artisjus (for the other copyright owners as well) would have to be transferred to the National Cultural Fund (NCF).

1.2 Evolution of our relations with authorities

Artisjus continued to meet its obligations of data provision and declaration towards HIPO. The year of 2013 was the fourth occasion that a planned and comprehensive supervisory audit took place, and it was the third time that this job was carried out by the copyright department of HIPO established primarily for that purpose. In the course of the annual supervisory procedure, several complementary questions were again addressed to Artisjus regarding the operation of the Society.

Finally, the annual supervisory procedure ended with two notices: according to one of them, changes need to be made in the annual report (already reflected in the report on 2013). The other part of the notice stressed the necessity to lay down the rules of possible prepayments payable to right owners in the Distribution Regulation.

Concerning the order of reporting, the supervising authority started negotiations with each of the Hungarian collective management organizations in 2014 about the prescription of a new order of reporting.

Based on the information provided in every case by Artisjus to HIPO in 2013, no supervisory procedure was launched against the Society. Among these cases, we need to highlight the one initiated by CloudCasting Kft., in which we had to provide detailed information to HIPO about the precise arguments and ways in which the Society approved the position in the year 2012, according to which the declaration of protest against the collective administration of rights pertaining to the international Ear Candy catalogue issued by Universal music publisher did not comply with the regulations of the

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

Act on Authors' Rights. Having received our detailed information, HIPO did not object to the legality of our procedure, and did not launch a supervisory procedure.

During the tariff chart approval procedure conducted by HIPO, and by the legal deadline (of 1 September), Artisjus submitted for approval its tariff charts serving as the basis for the collection of royalties for the year 2014. Following the procedure conducted by HIPO, the tariff charts were approved by the Minister of Public Administration and Justice, and they were all published in the Official Journal by 1 January 2014.

2. Royalty income and administrative costs in 2013

In the year 2013, the total amount of royalties collected by Artisjus was HUF 16,157,444 thousand.

	<u>2012</u>	<u>2013</u>	<u>%</u>
Income from public performance royalties	5,141,527	5,010,252	97,4
Income from broadcasting and cable television	3,833,308	3,580,367	93.4
- from which cable television income	1,473,465	1,398,182	94.9
Royalties on blank carriers	3,655,967	5,942,217	162.5
Royalties on mechanical music	229,253	172,452	75.2
Royalties on Internet	53,729	132,628	246.8
Royalties on reprography	8,315	7,767	93.4
Royalties from foreign broadcasting organizations	203,295	211,569	104.1
Royalties from abroad	237,254	270,218	113.9
Administrative costs of the distribution of royalties collected in the year prior to the relevant year	813,871	829,974	102.0
Total:	<u>14,176,519</u>	<u>16,157,444</u>	<u>114,0</u>

Within that, the royalties collected on behalf of the right holders represented by Artisjus amounted to HUF 10,888,117 thousand, whereas the sum collected on behalf of Hungarian collective management organizations representing other right holders and foreign television channels represented by Artisjus was HUF 5,269,327 thousand.

	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Those represented by ARTISJUS	10,125,289	71.42	10,888,117	67.39

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

Those represented by HUNGART, FILMJUS, EJI and MAHASZ	3,847,935	27.14	5,057,758	31.30
Foreign broadcasting organizations	<u>203,295</u>	<u>1.44</u>	<u>211,569</u>	<u>1.31</u>
Total	<u><u>14,176,519</u></u>	<u><u>100,00</u></u>	<u><u>16,157,444</u></u>	<u><u>100,00</u></u>

In light of the above, it can be stated that Artisjus successfully achieved its Financial Plan for the year 2013.

2.1 Live and canned music public performance market

In the domain of public musical performance, we closed the financial year with a result that was a few percent lower than in 2012, at 97.4%.

One of the main reasons for this revenue loss was a predicted factor, namely that as a result of the compromise born from the negotiations conducted with users, a new measure was introduced for hotels in 2013: the national figures of room occupancy rate, available from the Hungarian Central Statistical Office, were taken into consideration in the tariff chart. The result was also affected by the legal provision excluding the operation of gaming machines, which automatically led to the closing down of shops in great numbers and the termination of music use. (In 2013, Artisjus could invoice 4.1% less royalties compared to the year 2012, but thanks to the growing efficiency of rights collection, the revenue dropped by "only" 2.6%.)

In his decision of the end of 2012 approving our tariff chart for the year 2013 in relation to catering users, the Minister of Public Administration and Justice prescribed that during the creation of the tariff chart proposal, Artisjus should consult with the organizations delivering an opinion about the tariff chart. In harmony with the notice, Artisjus consulted with the organizations indicated, and before submitting its request for the approval of the tariff chart for the year 2014, it concluded an agreement (containing the common understanding of the parties in the essential issues) with the Hungarian Association of Hotels and Restaurants, the National Association of Tourism and Catering Employers, the National Association of Rural and Agro-Tourism and the National Association of Private Accommodation Providers. These agreements stipulate that the rate of royalties will not change for the years of 2014 and 2015 in the domain of catering.

In reaction to the closing down of shops and termination of music use owing to economic and market difficulties and resulting in a client loss for Artisjus (the rate of which two effects has increased in total by 19.6% since 2012!), we started reviewing in 2013 our catering and commercial tariff charts as well as planning possible modifications and corrections and examining the effects thereof. The results of the analysis may appear in the tariff chart for the year 2015.

2.2 Broadcasting and cable television market

In 2013, the sum of royalties collected from radios, television broadcasting and cable television attained 93.4 percent of the reference level. The figure dropped only seemingly: the reference level for 2012 was extremely high, as the Media Support and Asset Management Fund (MTVA) was late with

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

its standard broadcasting royalties for 2011 regarding the entire public media, and finally, it settled its debt in 2012 besides honouring its standard payment obligation for 2012 on time as well.

Although the *television market* was less affected by the crisis than the whole of the media market, a further decrease of advertising income can be detected. The long-term agreements of Artisjus concluded with the two major commercial televisions and MTVA will be in force for several years yet, thereby ensuring a balanced basis for the revenue from royalties collected for media services.

The new encrypted channel of MTVA called M3 Retro was launched in 2013; it broadcasts programmes and films from the 60's, 70's, 80's and 90's. Following negotiations, Artisjus and MTVA signed the broadcasting agreement in 2014 for this channel.

The advertising revenue of *radios* showed a steadily falling trend in 2013. Moreover, the revenues of Artisjus were affected by the termination of two significant stations (Neo FM and Radio1), which did not make any royalty payments in 2013.

According to the statistical figures of the National Media and Infocommunications Authority (NMHH), the *cable market* has continued to increase, whereas satellite broadcasting has been stagnating for a long time, and it has even diminished to a small extent. While encrypted channels are gaining more ground against free-access channels, as for platforms, an increasing number of people are subscribing to digital services, and IPTV is becoming ever more popular. While one year ago, the penetration of digital cable television and IPTV was about 25 percent, today it exceeds 30 percent. Meanwhile, the number of analogue cable television subscriptions has been decreasing to the same extent.

Revenues from the online simulcasting of media contents and web radios continue to be negligible.

2.3 Blank carrier market

In the year 2013, blank carrier revenues reached 162.5% of the reference level of 2012. The conclusion of a many-year litigation in favour of Artisjus and the significant income ensuing also greatly contributed to this increase.

Following the reconciliation of interests with the stakeholders of the branch as well as an economic analysis ordered by ProArt, the tariff chart was significantly transformed at the end of 2013: Artisjus reduced several royalty items (most importantly, the royalties of mobile phones). Furthermore, from 2014, blank carrier fees will also affect tablets, which are extensively used for private copying according to the figures of research conducted in recent years.

Artisjus devoted special attention to EU developments concerning blank carrier fees in 2013, too, and the possible conclusions of relevant EU sentences will have to be drawn in 2014.

2.4 The offline mechanical market (collection of rights on sound recordings)

Online distribution has continued to gain ground against mechanical pre-recorded carriers. This area produced 25% less revenue in 2013 compared to the previous year. The number of physical sound

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

carriers protected by copyright went down by 800,000, barely exceeding two million copies now. This amounts to only 51% of the revenue level of 2008. The decrease was also reinforced by the crash of the jukebox market in relation to gaming machines due to changes in legal regulations.

A noteworthy event took place at the end of the year 2013 in this area: the BIEM-IFPI framework agreement, which had been repealed many years ago, was renegotiated by the parties, and they signed a new agreement. Based on the latter, our practice will have to be adjusted to the new agreement in 2014.

2.5 Online music market

Besides the stably operating iTunes and the Telenor distributed Deezer, new providers have appeared: Rdio, Spotify and Google Play. Now every business model has a competitor in Hungary. Thanks to that and to the set-up of the internal Artisjus procedures enhancing the collection of rights and invoicing, the online musical revenues amounted to 246% of the reference value for 2012. Among the sources of revenue, streaming services constitute a growing proportion; the video-on-demand (VOD) service has also preserved its position.

2.6 Administrative costs

In 2013, based on the yearly report, the administrative costs deducted amounted to 20.98 percent of the royalty income according to the balance sheet. After the adjustment of the figure shown in the profit and loss account with the items accounted twice due to accounting rules (since the collection and the distribution of rights and the accounting the administrative costs thereof take place in two different years) and with the healthcare contribution to be paid on authors' rights (since this expenditure is not directly related to the operation of the Society), the average ratio of the costs effectively deducted and used for the collection and distribution of rights in 2013 did not exceed the usual rate of around 18 percent (it was 17.45% to be precise).

	<u>2012</u>	<u>2013</u>
Net sales income:	14,176,519	16,157,444
Standard administrative costs for the relevant year	2,226,228	2,560,070
Administrative costs of the distribution of royalties collected in the year prior to the relevant year	813,871	829,974
Total administrative costs	3,040,099	3,390,044
Adjusted net sales income	13,362,648	15,327,470
Authors' healthcare contribution	647,278	715,975
Operational administrative costs	2,392,821	2,674,069

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

Total administrative costs in proportion to net sales income	21.44%	20.98%
Operational administrative costs in proportion to corrected sales income	17.91%	17.45%

3. Relations with members and right holders, communication

The society membership of Artisjus continued to grow: the Society had 1,944 members on 31 December 2013. At the same time, the number of non-society members entrusting Artisjus with the collective administration of their rights was 10,978.

One of our important new channels of communication is the "Dal+Szerző" blog launched at the end of 2013 (<http://dalszerzo.wordpress.com/>). We have created this surface in order to share with musical creators, the media and the public interested in music what they cannot find elsewhere or at least, not in a collected fashion:

- our own survey results;
- inspiring interviews, informative articles, entertaining news (some of these also appeared in the publication of Artisjus, "Dal+Szerző" Magazine – and others were left out of the magazine and were published here);
- videos and summaries about our events;
- online musical tool kit: one of the most important components of the blog is "Tips and Tricks" (here we have built up a practical knowledge base for musicians with the help of which they can function as professional and conscious artists in copyrights issues as well).

We started our event series entitled Artisjus Authors' Academy in 2010 and kept it in an unchanged format till spring 2013: there, we informed authors about selected topics of the cultural industry with the help of external and internal presenters about four times a year.

In September 2013, Artisjus launched its monthly communication programme, Inspiring Music Alarm (IZE). The target group is primarily constituted by those young musical creators who, for lack of manager and experience, are unfamiliar with questions of music industry for the moment. It is to them that we offer a comprehensive information package, a knowledge base so that they could progress in their musical career as more conscious and "self-made" artists. The topics for 2013 included musical trainings, talent shows, concert organization, band rehearsal, video clips and YouTube.

In 2013, we sent altogether 22 authors' newsletters to the authors of Artisjus as well as 2 user newsletters, and we published 4 numbers of the "Dal+Szerző" Magazine.

One of the most important channels for providing information to authors continues to be the Authors' Information System (AIS), which had more than 3,600 registered users by the end of 2013 (having doubled the figure for the end of 2012).

According to our own survey, the Author Customer Service of Artisjus performs its duties to the satisfaction of two thirds of the authors, and in 2013, its job included providing assistance to authors regarding calls for tenders for creators pertaining to funds transferred to the National Cultural Fund from Artisjus.

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

4. Distribution and documentation

The distributions related to 2012 took place by the forecast deadlines; royalty payments were accomplished accordingly. The order of distribution has been modified in harmony with the stipulations of the Distribution Regulation: for technical reasons, certain elements of the so-called "great distribution" of May will be associated with the blank carrier distribution of June from 2013.

The amendments of the Distribution Regulation will be presented to the General Assembly by the Executive Board. The work of the Executive Board was actively and efficiently helped by the Distribution Working Group created in 2013.

Changes in the Distribution Regulation in the year 2013:

- **Funerary use of artwork:** This modification of the Distribution Regulation allows for an efficient, economical and data provision based distribution of royalties collected on the occasion of funerals.
- **Canned music of individual distribution:** The modification of the Distribution Regulation allows for the data-based distribution of royalties coming from background (canned) music providers to the extent of maximum 5% of all canned music royalties. Uniform data provision requirements have been defined so that the distribution of royalties would require the smallest possible amount of manual labour.
- **Limitations on the so-called direct playing of music on television:** A degressive coefficient has been introduced for direct playing on television (direct music, i.e. all music that does not qualify as signal, background, advertising or interval music). The application of the total-duration degressive coefficient has been introduced in the case of more than 190 direct-play quality pieces (40,000 s) per year and per channel.
- **Live background music in catering facilities:** The distribution of the royalties collected from catering facilities is carried out based on the incoming programme forms. The more forms a piece is indicated on, the bigger coefficient it will have in the distribution. The amendment approved last year significantly decreased the difference between the smallest and the greatest frequency of play, but it increased the number of frequency categories, thereby extending the scope of the distribution algorithm.
- **Administrative changes regarding sound recordings published by the composer:** Several modifications have been introduced regarding the registration and administration of blank carrier royalties in the case of sound recordings issued by composers. As a result of these modifications, a clearer administration is to be expected, without changing the result of the distribution.
- **Royalty distribution agreement for music publishers:** The text of the royalty distribution agreement in Appendix 5 of the Distribution Regulation had become outdated. The modification adjusted the text of the music publisher commission and the member commission to the text of the agency agreement for authors and member authors.

5. Social-cultural activities

In harmony with the legal framework in force from 2012, Artisjus transferred the part deducted from the 2nd semester of 2012's royalties for community cultural purposes to the National Cultural Fund in March 2013. Concerning the reductions made from royalties collected in 2013, the decision was made

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2013

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

only in 2014, when the National Cultural Fund announced the calls for tenders for the sums previously handed over to them, according to the provisions of the Artisjus Aid Policy.

In the new social aid scheme, Artisjus Music Foundation and Artisjus Literary Foundation announced their calls for tenders for allowance as a supplement to pension and allowance based on social need in 2013 for the first time.

6. International environment

Artisjus continues to participate in the work of CISAC, the global confederation of rights administrators and GESAC, the European regional organization, as a member of the board of both organizations. In 2013, Artisjus once again hosted the international seminars and trainings organized by the European Regional Directorate of CISAC/BIEM.

In 2013, Artisjus, simultaneously with the Belgian rights administrator, joined the Armonia platform set up by French, Italian and Spanish musical societies of authors' rights protection with the objective of promoting Pan-European online collection.

7. 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

On 31 December 2013, the Society had 154 full-time employees of which 141 persons had a contract with indefinite term and 13 had a contract with definite term.

The Society has projected a net royalty income of HUF 11,294,210 thousand for the year 2014.

16 April 2014, Budapest

SOCIETY ARTISJUS HUNGARIAN BUREAU FOR THE PROTECTION OF AUTHORS'

RIGHTS

BUSINESS REPORT
ON THE YEAR ENDING ON 31 DECEMBER 2013

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

Dr. András Szinger
Director General