

1. The operational environment of Artisjus in 2015

1.1 Legal environment

In 2015, Act No. LXXVI of 1999 on Authors' Rights did not undergo any significant amendments affecting the Society. Concerning the Act on Authors' Rights, the year of 2015 was spent in expectation of the text of the bill transposing the directive on the collective administration of rights (for the transposition of which the deadline was April 2016). We discussed the general and detailed concept of transposition. As it transpired from the concept, the Hungarian legislature wished to perform this obligation by way of a separate act on the collective administration of rights, whereas the Act on Authors' Rights would be amended "only" to the extent necessary. The text of the bill was finally submitted to the Parliament on 3 May 2016.

The case-law of the Court of Justice of the European Union (CJEU) pertaining to authors' rights is becoming increasingly extensive. However, the length of this business report does not allow for the presentation of the numerous judgements also affecting the interpretation of the legal provisions constituting the basis of the activities of Artisjus.

1.2 Our relations with authorities

The usual comprehensive supervisory audit was carried out by the Hungarian Intellectual Property Office (HIPO) in 2015 as well, which examined the operation of the Society with respect to its compliance with the regulations on authors' rights. This year the Society did not receive any notices or additional data requests; that is, based on the documents supplied by our Society, the supervisory authority deemed its operation lawful in every respect.

The year of 2015 saw the submission of the first uniform annual supervisory report, which involves the provision of data for financial supervision. We did not receive any objections on that matter, either.

In August 2014, following the notification of CloudCasting Kft., the Hungarian Competition Authority (GVH) asked the Society to issue a statement regarding its activities of public performance licensing. Our Society promptly answered the notice, and the GVH decided in its order delivered as of 13 January 2015 that the facts presented did not justify the launching of competition proceedings. CloudCasting Kft. appealed for a judicial review of the decision of GVH, and Artisjus intervened in the proceedings for a judgement favourable to GVH. The appeal for judicial review was dismissed by the Metropolitan Administrative and Labour Court of Budapest.

The work aimed at the preparation of reference royalty notices for 2016 started as early as in spring 2015, and the tariff charts were submitted by the deadline of 1 September. 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 2016, thus they could be applied as of 1 January 2016.

2. Royalty income and administrative costs in 2015

In the year 2015, the total amount of royalties collected by Artisjus was 17,082,605 thousand HUF. The reason for the decrease compared to the reference value of 2014 is that in the years of 2013–2014 the revenues also included an item of blank carrier fees spanning many years retroactively and collected from a high-value litigation.

	2014 thousand HUF	2015 thousand HUF	%
Public performance royalties	5,262,294	5,286,321	100.5
Revenue from broadcasting and cable television	3,953,133	4,106,569	103.9
<i>from which cable television revenue</i>	<i>1,498,046</i>	<i>1,580,533</i>	<i>105.5</i>
Royalties on blank carriers	8,866,778	6,842,039	77.2
Royalties on mechanical and canned music	194,272	173,764	89.4
Online	223,641	202,095	90.4
Royalties on reprography	6,156	6,383	103.7
Royalties on foreign broadcasting organizations	157,096	147,156	93.7
Royalties from abroad	321,096	318,278	99.1
Total:	18,984,466	17,082,605	90.0

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

	2014	%	2015	%
Those represented by Artisjus	11,967,180	63.04	11,267,970	65.96
Those represented by HUNGART, FILMJUS, EJI and MAHASZ	6,860,190	36.13	5,667,479	33.18
Foreign broadcasting organizations	157,096	0.83	147,156	0.86
Total	18,984,466	100.00	17,082,605	100.00

Based on the above, it can be stated that Artisjus successfully achieved its governing Financial Plan for the year 2015.

2.1 Live concerts and background music public performance market

The domain of musical public performance concluded the financial year with a result of 100.5 per cent compared to the revenues of the year 2014, by which it attained the pre-crisis revenue level of 2008, the highest in the history of Artisjus.

The maintenance of the level of total revenues was chiefly due to the domain of live music: Artisjus concluded its most successful year of all times not only in terms of the sum collected, but also of the collection of usage reports instrumental for distribution (i.e. data provision regarding the musical pieces played): the number of musical events with a report where rights were collected amounted to almost twenty thousand.

According to our hopes, the correction of the catering industry tariff chart in 2015 caused a minor decrease only in the short run. The tariff changes could not yet halt the diminution of the number of music-user catering units (in 2015, their number was -4% over the previous year). By arranging the figures of this domain in long-term time series, we can observe an improving payment discipline. In recent years – perhaps as a sign of the sector's recovery from the crisis – a growing proportion of users pay their copyrights without a special notice. Besides that, another factor that contributed to the maintenance of the revenue level was the job concerned by the litigation; after 2014, the year of 2015 was the second most successful year of the decade from this respect as well.

The year of 2015 was the first full financial year in which – based on our cooperation with background music providers – the latter could offer discount royalties packages to users signing a contract with them. Unfortunately, our experiences of the pilot year were not positive enough: neither the quality of the transmission

data provision by the service providers, nor the revenue level reached by sales work drawing on discount rates was up to our expectations. The failure was partly due to the market's own adjustment processes on the providers' side and partly to the commercial situation generated by the governmental measures affecting the commercial sector at the end of 2014. Based on these lessons, we prepared modified service provider framework agreements for 2016, giving a second chance to the project in the upcoming year.

When planning the tariff charts for the commercial and catering industry, in harmony with the negotiations with the users, we are trying to proceed towards tariff modifications allowing for a cost distribution as simple and favourable as possible while maintaining the revenues important for the creators.

2.2 *Broadcasting and cable television market*

In 2015, the sum of royalties collected from radio and television broadcasting and cable retransmission attained 103.92 per cent of the reference level of 2014. The source of the increase was constituted by the royalties paid by the cable television market and within that, the fees paid after encrypted broadcasting. Similarly to 2014, payment discipline and the respect of deadlines were satisfactory.

On the *television market*, Artisjus realized 99.24 per cent of the revenues of the reference level. The leading role of television is indisputable in the media market, and – for the time being – there is no sign of a shift in the near future. The structure of the television market has changed recently. As opposed to the earlier bipolar television market (RTL, TV2), there are several rival portfolios, the share of the major channels has decreased, and significant channel families have sprouted. Music and lifestyle channels have increased their market share, and local televisions have also become more important.

The *radio* royalties collected in 2015 attained only 86.84 per cent of the sum collected in 2014. This drop can be put down to the payments of the national commercial channels: the latter paid tens of millions of forints less royalties altogether than in the previous year. Considering that Artisjus has no influence whatsoever on the evolution of the radio advertising market, we have prepared the audit of the accounts of small and medium channels in order to increase the revenues. This will be carried out gradually in the course of 2016. The disclosure of any potential gaps in declaration and data provision promotes fair competition and the whitening of the media market in the medium run.

Royalties collected in the domain of *cable television* in 2015 amounted to 105.5 per cent of the 2014 reference value. The increase is due to the still increasing number of encrypted channels appearing within the channel offer besides the diminishing number of free-to-air channels. The increasing trend of royalties collected on the retransmission of encrypted channels is not due to an increase in the number of households reached by broadcasters, but to the changing of the channel offer. In fact, the growth of royalties collected on the retransmission of encrypted channels can be put down to the diminution of free-to-air broadcasts and the change in technical platforms.

In 2015 we began the review of the data provision performed by the Hungarian Cable Communications Association on behalf of the service providers. In the framework of the control carried out by the employees of the Society, the data used for establishing the authors' rights were reviewed: they were first compared with the data of the channel distribution laid down in the General Terms and Conditions of broadcasters in force and then with the data of the service providers. As a result of these controls, we also began negotiations with the Hungarian Cable Communications Association with a view to the general improvement of the quality of data provision.

2.3 *Blank carrier market*

In the year 2015, the blank carrier revenues collected by Artisjus amounted to 77 per cent of the reference value of 2014. The reason for this decline is twofold. On the one hand, the reference value of 2014 included a significant sum, i.e. in the billions, as a result of the conclusion of an earlier legal dispute. On the other, as many as three multinational companies fell in arrears regarding the royalties due, resulting in several months of outstanding debt, which altogether were also close to a billion forints. (By the time of the closure of this report, a substantial part of the fees will have already been settled or is to be expected in 2016.) With the tariffs unaltered, there were no special events in the blank carrier market. We had a tranquil year, free from theoretical debates. As presented above, the reason for the decline in royalties was not structural.

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

The amount of royalties collected after pre-recorded publications was 162,612,862 HUF. After the 10 per cent increase in revenues in 2014, this constituted a 12.5 per cent decrease. In 2014 there was an extremely high amount of rights collected, which were missing in 2015 – that is the explanation for the decrease. Moreover, there were no cover mounts printed in the usual number of copies, to which a discount tariff rate is applied. (In 2015 the number of publications registered by Artisjus was 3,338,760, which was only 54 per cent of the number of copies in 2014.)

2.5 Online music market

In the realm of online music our revenues dropped by nearly 10 per cent as opposed to the 61.5 per cent increase in 2014. This decrease can be primarily put down not so much to the decline of transmission, but rather to difficulties of collection and the evolution of payment discipline: although it is natural that some quarters overlap every year, or there are arrears not collected, but in 2015 these items made up for one quarter of the total revenues expected. The only effective substantial loss is Vodafone's exit from the market of streaming services, where the service called "Hallgass Hazait" (Listen to Domestic Music) generated nearly 10 per cent of the total online revenues last year.

Video-on-demand services (archive TV, timeshift, TVOD, SVOD) continue to produce two thirds of online royalties. At the end of the year, Netflix appeared in the Hungarian market, too. Negotiations about signing an agreement are still under way with this service provider. Out of the musical video services, the business model financed from YouTube commercial revenues (where rights are also collected by Artisjus) is the most popular in the Hungarian market.

As far as the digital music market is concerned, it can be stated that apart from some ephemeral successes, the market is dominated by big international players. Musical services do not require the same kind of localization as film services or media services. Consequently, major players with a huge investment need compete with each other.

2.6 Total administrative costs

In the year 2015, the administrative costs deducted by Artisjus effectively for its operation (i.e. excluding the obligatory payment of healthcare contribution after copyright) amounted to 16.59 per cent.

	2014	2015
1 Net sales revenue:	18,832,448	17,126,388
2 Administrative costs of the distribution of royalties carried over to the year following the target year	1,012,473	968,690
3 Administrative costs for the target year	3,175,547	2,855,952,
4 Administrative costs of the distribution of royalties collected in the year prior to the target year	860,456	1,012,473
(3+4) 5 Total administrative costs	4,036,003	3,868,425
(1+2-4) 6 Adjusted net sales revenue	18,984,465	17,082,605
7 Authors' healthcare contribution	748 380	1,033,678
(5-7) 8 Operational administrative costs	3 287 623	2,834,747
(5/1) 9 Total administrative costs in proportion to net sales revenue	21.43%	22.59%
(8/6) 10 Deducted operational administrative costs in proportion to adjusted net sales revenue	17.32%	16.59%

3. Relations with members and right holders, communication

3.1 Membership data, customer service

The society membership of Artisjus continued to grow in 2015: the Society had 1,998 full members on 31 December 2015. At the same time, the number of non-society members entrusting Artisjus with the collective administration of their rights was 14,024.

The workload of Artisjus Member Services Team has been steadily increasing. In 2015 a special campaign was organized in which we called the authors' attention to the administrative possibilities regarding the settlement of suspense accounts, setting the objective that as many authors specify the details of their works as possible, thus allowing for the liberation of pending items of the highest worth possible. Besides that, the member service team have also contributed to the administration concerning Artisjus foundations and the tenders to be submitted by authors to the National Cultural Fund.

Our usual satisfaction survey, also prepared in 2015, continued to indicate an 80-90 per cent satisfaction regarding the Member Services as seen by the right owners. In order to support the increased workload, one more person was hired for the team in autumn 2015.

3.2 Events and communication events

The first open doors' day of Artisjus was one of the milestones of the *Open Artisjus* project. In one morning and one afternoon shift, altogether six groups could peek behind the coulisses of Artisjus. Eighty visitors were guided by the staff of the Society through the most interesting processes of rights collection and distribution as they visited several staff teams in the building.

In 2015 Artisjus was present with a re-designed stand at the biggest musical exhibition of Hungary, *Budapest Music Expo* held in the SYMA Hall, Budapest. The expo space where we welcomed authors was located in a busy spot and furnished to create a lounge atmosphere. The authors could benefit from the full-range of administrative services on site. During this three-day event, more than 300 authors registered at Artisjus or in the Authors' Information System (AIS), or settled problems related to royalties.

Inspiratív Zenei Ébresztő (IZÉ) (Inspirational Musical Alarm), a relaxed information event of Artisjus was organized on one occasion in 2015. By transforming its customer relation strategy with authors, Artisjus has intended to find a new event framework that could be of interest and use to the broadest possible range of authors.

3.3 Online communication

The Artisjus online information system for authors, *Authors' Information System* (AIS) has developed into one of our key communication channels over the years. The number of users grew dynamically in 2015, too: from five and a half thousand in 2014, the number of authors registered in the system grew over seven thousand. In order to facilitate its utilization, eight tutorial videos were made in 2015 to guide authors' through the topics interesting for them from online work registration through foreign royalties to the explanation of a royalty notice.

July 2015 saw the launch of the *new website of Artisjus* (www.artisjus.hu), which is great progress to the previous website both in terms of appearance and content. Highly popular pages of the website are the radio and television online royalty calculators located under Rights Distribution section, which provide information to rights holders about the royalties due after the works broadcast on the individual channels. As an important change, the earlier website of Artisjus Musical Foundation has been shut down, and the new homepage of the foundation has been incorporated under the artisjus.hu domain in line with the new website concept of the Society. The new website also includes a separate homepage for the Literary Foundation of Artisjus. The former website of the Artisjus awards has also been shut down, and received a separate sub-site with a uniform design within artisjus.hu.

In 2015 the *Facebook page* of Artisjus (www.facebook.com/artisjus.hu) was used mainly as the communication channel of the "Dalszerző" (Songwriter) blog entries. Moreover, news related to our Society, own press releases and tender information were also published here. Besides that, Artisjus continues to be present on *Twitter* as well.

In 2015 the "*Dalszerző*" blog was edited by a professional music journalist commissioned by the Society. These posts covered the latest news of music industry, and mostly news related to the online market. Besides the contents written by this journalist, Artisjus also prepared some articles: for instance, the online editions of the "Artisjus füzetek" (Artisjus Booklets) and the "Dal+Szerző" (Song+Composer) magazine, infographics, press releases and further news related to Artisjus were published here.

During WOMEX, a world music expo and showcase, which was organized in Budapest in 2015 as a result of our successful "music diplomacy", we published an article in Hungarian every day from the special English edition made for this occasion, and we also created a temporary independent column for WOMEX within the blog.

In 2015, we informed the authors *in a newsletter sent via e-mail* about the latest news of music industry affecting them, royalties settlement, tender news and events. Throughout the year we sent altogether twenty-one newsletters to more than thirteen thousand addresses.

3.4 Publications

Dal+Szerző (Song+Composer), the cultural quarterly of Artisjus has been providing Hungarian authors and stakeholders of the music industry with the latest news of their domain for the fourth year now. Regarding its content structure, the magazine did not change in 2015: the Profile column presented young and talented music bands, our discography introduced the latest Hungarian music albums, the Generations column featured interviews with family members, the pages dedicated to literary authors and lyricists as well as our profile feature articles presented Artisjus award winning artists, we continued the Law Cases column, and we presented musical apps on our Programmes page. Compared to 2014, the online readership of the publication tripled. *Dal+Szerző* issued a special English edition on the occasion of WOMEX. The magazine presented the Hungarian performers of the event as well as the musical characteristics of Hungary. What made this publication special was that besides the online Hungarian version, it also had an English printed edition. The latter was offered to the 2500 foreign guests of WOMEX so that they would become familiar with more Hungarian composers and performers and offer them concert opportunities abroad, or a contract with a certain publisher or manager.

Our new publication series launched in 2014, *Artisjus füzetek* (Artisjus Booklets) was fully developed in 2015. In these thematic information booklets, we answer those questions that authors address to our Society on a daily basis. We systematized all those pieces of information in a concise and clear manner that all music creators will encounter sooner or later in their career. The booklets are freely available at our Member Service office as well as on our blog. The topics discussed in 2015 were the following: musical rights distribution, publication of phonograms, social and cultural benefits.

In 2015 ProArt published its first *Zeneipari Jelentés* (Music Industry Report) with the pro-active participation of Artisjus. The report was prepared by an economic expert commissioned by ProArt. Its publication was scheduled for the Music Hungary Conference of May 2015, whose content structure was already constituted by this report. The publication was very well received. It successfully set the agenda for both public discourse in music industry and politicians active in this domain.

4. Distribution and documentation

The distribution of royalties collected in 2014 was carried out according to the previously indicated deadlines, and the royalties were paid accordingly. On top of the usual distribution events, there was also a special "recycling" distribution. The reason for that is that in line with the provisions of the EU directive regulating the collective administration of rights, which was to be transposed by April 2016, the period during which collecting societies could search for and identify those entitled to receive royalties which are due to right owners unknown or whose whereabouts are unknown, will be reduced from five years to three years. In preparation for this, the General Assembly of Artisjus modified the Distribution Regulation of the Society. Earlier we added the sum of unidentified royalties to the distribution funds, so that they basically melted into the next year's distributions. However, from 2015 we introduced a new type of distribution instead of recycling the money into the funds: we pay the rights unidentified for over three years to the authors in the framework of this special clearance.

Another consequence of the above modification is that due to the reduction of the five-year period to three years, exceptionally, we paid three years of unsettled royalties to the authors in 2015 instead of one.

Therefore the right owners who had broadcasting data in the distributions performed from 2010 to 2014 were the ones who received royalties in the course of the recycling of royalties in 2015. The distribution of the unidentified royalties was performed in proportion to the royalties calculated for the above broadcasts.

Moreover, the Distribution Regulation was modified in two substantial points in the course of 2015 (neither of them being a distribution topic in the narrow sense):

- in relation to the above "recycling" regulation, Artisjus – taking advantage of this opportunity within the regulatory framework – makes a 25 per cent deduction for community professional purposes before recycling the suspense account. The aims and the manner of utilization have been specified by the General Assembly in the amendment of the Benefit Policy of Artisjus;
- second, the General Assembly re-regulated the operation of Arrangement Committees for the sake of rationalizing the workload and a more efficient satisfaction of demands (see Appendix 2 of Distribution Regulation).

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 2015 as well.

In 2015, in harmony with the regulations of the Act on Authors' Rights, we deducted a share of 25 per cent from the royalties which were due to right owners unknown or whose whereabouts were unknown, but which could not be settled for more than three years, in order to support professional and social purposes within the community of the right owners. The utilization of professional benefits is regulated by the Benefit Policy. The benefits can be used in 2016 and in the subsequent years directly via the Society.

6. Organizational development

In 2015 the work organization of Artisjus invested a lot of energy into keeping this organization, which carries out the demanding tasks of musical rights collection and distribution, in a modern, efficient, flexible and energetic shape. With that in mind, we introduced the agile project management method in several domains in 2015. We strengthened the internal project bureau, and we have been performing internal process organizational and rationalization tasks in several areas, occasionally with the help of an external consultant. We introduced electronic filing in the organization, and put more emphasis on the tasks of managerial strategic planning and assessment.

7. 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 2015 again, Artisjus hosted the international seminars and trainings organized by the European regional directorate of CISAC/BIEM. Besides that, Artisjus is a member of and an active contributor to the online licensing and (for some time now) background cooperation: the Armonia online platform (www.armoniaonline.eu). According to the decisions made in 2015, Artisjus will also utilize the information technological background operational tools developed jointly by the collective management organizations having founded Armonia (the French SACEM, the Italian SIAE and the Spanish SGAE), which hopefully will boost the efficiency of online distribution and processing, in place of similar internal developments.

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

On 31 December 2015, the Society had 158 full-time employees of which 12 persons had a fixed-term contract.

The Society has projected a net royalty income of 14,131,940 thousand HUF (without VAT and basic administrative fee) for the year 2016.

16 March 2016, Budapest



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