

RIGHTS

BUSINESS REPORT

ON THE YEAR ENDING ON 31 DECEMBER 2018

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

1. The operational environment of Artisjus in 2018

1.1 Legal environment

Although it was approved only in 2019, Artisjus was to give its opinion on the various drafts of the Copyright Directive – constituting an organic part of the EU's digital internal market strategy – in the year 2018.

The EU's General Data Protection Regulation (GDPR) came into force in May 2018. Consequently, the Act on Collective Management of Copyright ("Kjkt.") was also amended, and the titles and possibilities of data management were adequately specified.

The text of the Act on Copyright (Szt.) regarding free use by persons living with visual impairments or reduced reading ability was also modified in harmony with the relevant EU directive: the regulation elaborated fits into the dogmatic regime of the Copyright Act, and it adequately completes free uses that favour persons living with disabilities concerning artistic perception.

In the wake of the 2018 elections, the government's structure underwent a certain degree of transformation, which affects Artisjus directly (there were changes in the ministries having the right to be consulted in connection with certain tariff charts) and indirectly as well (the Hungarian Intellectual Property Office is now partly supervised by the Ministry for Innovation and Technology instead of the Ministry of National Economy, besides the Ministry of Justice).

As of 1 January 2018, Act CCXXII of 2015 on the General Rules of Electronic Administration and Trust Services made electronic administration mandatory for economic operators and certain public bodies acting as clients, as well as for the legal representatives of clients. In order to administer issues electronically, economic operators use the so-called Business Gateway application, which operates as an official electronic notification storage space. Artisjus complied with these rules, and performed the necessary administrative and software modifications.

1.2 Evolution of our relations with authorities

The Hungarian Intellectual Property Office (HIPO) carried out its usual comprehensive supervisory procedure in 2018, too: as no improprieties were identified in the operation of the Society, the scrutiny ended without notice. In 2018 we responded to only one request for supervisory information related to a complaint in connection with the payment of blank carrier fee, but no supervisory procedure was initiated on the basis of the complaint.

At the beginning of 2014, a competition procedure was brought against Artisjus under no. VJ 15/2014 concerning the establishment of blank carrier fees, on account of alleged abuse of dominant position. The procedure ended with a so-called "commitment" in the course of which the Society had to take certain measures. In accordance with the formal approval of the commitment, in 2018 we carried out the duties undertaken and submitted the required reports to the Hungarian Competition Authority (GVH). In 2018 GVH brought follow-up proceedings under no. VJ-5/2018 to verify the execution of the commitments undertaken in 2017. The proceedings are still in progress at the time of the writing of this report (March 2019).

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Artisjus submitted its reference tariff charts for 2018 in due time by 1 September, requesting their approval by the state. With the exception of the public performance tariff charts marked "V", "K" and "SZ" (catering, commercial, accommodation, etc.), our tariff charts were approved by the Minister of Justice after the procedure conducted by HIPO. Concerning the tariff charts marked "V", "K" and "SZ", the Minister for Tourism raised objections to them in the last stage of the procedure. Therefore, the decree on the approval of the tariff charts could be issued – based on the notification of the Ministry of Justice in charge of their approval – only after we had cancelled (in agreement with the collective management organizations of rights related to copyright that were affected) the inflation-adjusted tariff increase in the tariff charts. This procedural turn could not have been foreseen as there is no legal obstacle to inflation-adjusted increase, and the corresponding modification of the tariff charts satisfied all the requirements.

1.3 Important litigations

As we reported in our business report on year 2017, several authors turned to HIPO in 2017 in individual cases of alleged violations of the Distribution Regulation (in the subject matter of concert distributions and blank carrier and canned music distributions). Based on the information received from Artisjus, HIPO did not consider it necessary to bring a supervisory procedure in either of the cases. Following HIPO's decision, certain authors initiated two civil law proceedings against Artisjus.

- In the first such proceedings, several members of the Society and right-holding authors lodged a joint case against Artisjus on 21 December 2017 to have its accountability established by the court. After two court hearings, the case ended with Artisjus's success on first instance on 1 June 2018. Following the plaintiffs' appeal, the Metropolitan Court of Appeal approved the judgement at first instance in its entirety on 4 October 2018, thus Artisjus achieved a final success in that case. Interestingly, the plaintiffs initiated during the appeal procedure that the Metropolitan Court of Appeal seek the preliminary ruling of the Court of Justice of the European Union, the execution of which, however, was found unsubstantiated by the judicial council at second instance.
- In the second procedure of this kind, an author who was also the managing director of a music publisher, filed a case against Artisjus on grounds highly similar to the above, also requesting that the court establish the accountability of Artisjus. There were two court hearings in the trial at first instance: on 29 June and 14 September 2018. At the second hearing, the Budapest-Capital Regional Court delivered its judgement and upheld the defendant's position, so Artisjus succeeded in this court case as well. The plaintiff lodged an appeal, but withdrew it before the date of the hearing at second instance was set, so the judgement of the Budapest-Capital Regional Court became final.

The above two judgements will constitute a precedent. In these cases, the plaintiffs were authors who also represented publishers publishing the recordings of their works and as such, they supplied data to Artisjus regarding the distribution of their own works – data that would serve as the basis for the various distributions.

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2. Royalty collection and administrative costs in 2018

In the year 2018, the total amount of royalties collected by Artisjus was 20,817,650 thousand HUF, which constituted a 4% increase compared to the reference value of 2018.

Royalty collection and administrative costs			
	2017 thousand HUF	2018 thousand HUF	%
Public performance royalties	5,590,395	5,917,988	105.9
Revenue from broadcasting and cable television	4,642,806	4,972,069	107.1
<i>from which cable television revenue</i>	<i>1,957,883</i>	<i>2,270,582</i>	<i>116</i>
Royalties on blank carriers	8,645,360	8,695,731	100.6
Royalties on mechanical and canned music	249,158	155,120	62.3
Online	251,919	240,057	95.3
Royalties on reprography	6,034	6,239	103.4
Royalties on foreign broadcasting organizations	212,782	418,216	196.5
Royalties from abroad	344,846	412,230	119.5
Total:	19,943,300	20,817,650	104%

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:

The rate 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:				
	2017 (thousand HUF)	%	2018 (thousand HUF)	%
Those represented by ARTISJUS	12,785,531	64.11	13,156,630	63.20
Those represented by HUNGART, FILMJUS, EJI and MAHASZ	6,944,987	34.82	7,242,804	34.79
Foreign broadcasting organizations	212,782	1.07	418,216	2.01
Total	19,943,300	100.00	20,817,650	100.00

Based on the above, it can be stated that Artisjus successfully achieved its governing Financial Plan for the year 2018.

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2.1 Live and canned music public performance market

Whereas the public performance tariffs of Artisjus did not grow in the past six years (on the contrary, we had reduced our catering industry fees by 19% on average by 2015), the royalties paid for the public performance of live and canned music increased by 5.9% over the 2017 reference value.

The reason for the revenue increase is twofold. On the one hand, each major economic segment of the public performance royalties market (i.e. catering, commerce, accommodation) concluded a remarkably successful year. On the other – presumably in connection with that –, payment discipline continued to improve (in line with the trend observed in recent years): 83.4% of the revenues came in already upon delivery of the royalties payment notification, and an additional 10.9% were paid after the first notice, which means that we collected 94.3% of the public performance royalties without rights enforcement (i.e. without instituting an order for payment procedure) in 2018.

At the same time, after six years of unchanged conditions, maintaining the value of the revenues of right holders in real terms would necessitate the (at least) inflation-adjusted correction of the respective fees in the future. We made an attempt at their adjustment in the 2019 tariff charts, but were unable to enforce it in the state approval procedure.

2.2 Broadcasting and cable television market

In 2018 radio and television broadcasting, as well as cable television royalties increased by 7.1%, even though the fees included in the tariff charts had also been the same for years.

The most important event of the broadcasting market was that we finally managed to sign a user agreement with TV2 Group, also operating the second largest commercial television channel. Based on that, in early 2019, the media provider settled the unpaid royalties for 2017 and 2018 for the channels it operates. This sum will thus be included – along with the relevant turnover data – in the broadcasting royalties to be distributed in 2019.

On the radio market, we nurture a balanced relationship with MTVA, the biggest actor, as well as with the other major radios; royalties are paid continuously.

In accordance with our practice started earlier, we inspected a total of 12 radio and 8 television media providers in 2018. As a result of the audit, we detected unsettled royalties in the tens of millions of HUF, which we have begun to enforce. Royalties were paid to Artisjus in a similar order of magnitude in the wake of the rights enforcement procedures launched by Artisjus in 2018.

In the broadcasting (cable television) market, service providers accumulated royalties payment obligations exceeding those of the reference year due to the channel offer that was expanded in 2018 as a result of their own commercial decisions. Artisjus had consideration of the fact that the revenues of service providers did not mirror this change in a linear manner, so we signed a sectorial agreement about a 3-year, gradually increasing derogation with the Communications Reconciliation Council (HÉT) at the end of 2018. At the same time, royalties paid after foreign channels represented by Artisjus (constituting the revenue of the supplementary business activity of the Society) nearly doubled in comparison with the 2017 reference value thanks to the fact that based on their 2016

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decision, these right holders do not assure any reduction in royalties, and the majority of their channels were transferred from the earlier mini packages to the basic or premium packages, and are thus reaching much more households than before.

2.3 Private copying fees

The total of the private copying royalties collected by Artisjus on blank video and audio carriers grew by 0.6% over the 2017 revenue. That the level of royalties was maintained should be appreciated in light of the fact that the reduction that we give on royalties to be paid after mobile phones making up a large portion of private copying fees was increased from 15% to 33%. The reason for increasing the reduction in this region is – as opposed to Western European trends – the extremely high yearly turnover and the fast expansion of storage capacities (doubled in about every two years), which ensure right holders a compensation revenue of royalties proportionate to the volume of copying, even combined with the degressive tariff structure and the high reduction rate.

In addition to mobile phones, growth affecting revenues was also manifest in the product segment of tablets and external HDDs.

The accuracy of settlements is enhanced and grey and black economy is rolled back by the use of retail cash registers' accessible data, which are connected to the National Tax and Customs Administration of Hungary (NTCA), local monitoring trips carried out jointly by Artisjus and ProArt, as well as NTCA's occasional procedural and investigative actions also covering the verification of the payment of private copying fees.

While preserving its central collecting role, Artisjus prepares a quarterly informative report on the main figures and events of the private copying segment of the royalty market for the collective management organizations representing the other right holders concerned.

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

In 2018 our revenues from the collection of rights on mechanical and canned music amounted to a mere 62.3% of the reference value. As we have seen in the past, this market shows significant volatility from year to year, and trends should be analysed over several years. This hectic fluctuation can be put down to the fact that the proportion of mechanical royalties has shrunk so dramatically that changes even in the royalties paid by one actor may lead to serious swings. This was also the case in 2016, 2017 and 2018, when compared to the 2016 levels, the total revenue grew by 38% in 2017 due mostly to the posterior settlements of a single BIEM/IFPI publisher, which were prolonged for technical reasons; then in 2018 this peak value was corrected in the revenues.

From the year 2016, in addition to the production of publications, we also request that sales, that is, effective distribution to customers be justified and supported by accounting records. Data provision for the purposes of distribution and its monitoring produced the expected result as early as in 2017: that is, we managed to reduce the high number of mechanical collection of rights aimed solely at getting a share from the distribution of canned music and private copying fees. In 2018 inspections produced the same result.

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2.5 Online music market

In 2018 revenues from the collection of online musical rights amounted to 95.3% of the reference value. Substantial development is hampered by the fact that the cost per transaction of the processing, collection and distribution of streaming – which is slowly beginning to monopolize the market of musical services –, as well as its IT development and labour intensiveness is one of the biggest challenges of the history of the collective administration of rights all over the world.

In an effort to represent the Hungarian repertoire, Artisjus has been trying to tackle this global challenge, attempting to take action in three directions with a view to a more efficient processing:

- in the framework of Armonia, we try to share the IT costs of the individual elements of online arrangements through an international cooperation of several foreign collective management organizations in music
- in addition to our internal development projects, we also hire an external developer to develop the software necessary to perform the individual tasks of Artisjus, and
- we have been active in the preparatory and lobby activities aimed at the amendment of legislation by the European legislature that constitute a market-distorting competitive edge for online platform services.

Nevertheless, the bulk of the online revenues still come from VOD (video-on-demand) services; in this respect, service providers announced changes in 2018 that would affect the market. UPC Hungary, a significant fee-payer in this circle, was purchased by Vodafone, and most likely from the second semester of 2019, it will continue its activities in Hungary as a subsidiary of Vodafone. Furthermore, Vodafone Hungary notified us about the launching of its own online services from 2019, and negotiations about the collection of rights are in progress. Invitel Zrt. was purchased by the Digi Group, and the latter took over the operation of the online services affecting our revenues from rights. The Czech PPF Group, which bought the Central European subsidiary of Telenor (including the one in Hungary), also announced the expansion of its online portfolio, and we have already negotiated with the service provider about the collection of rights.

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2.6 Administrative costs

In the year 2018, the administrative costs deducted by Artisjus effectively for its operation (i.e. excluding the obligatory payment of healthcare contribution after copyright) amounted to 18.74 per cent.

Total administrative costs: Administrative cost indicators effectively deducted for operation			
	2017 (thousand HUF)	2018 (thousand HUF)	%
1 Net sales revenue	19,870,865	20,925,463	105
2 Accrued administrative costs of the distribution of royalties for the year following the target year	1,069,966	1,005,019	94
3 Administrative costs for the target year	3,332,618	3,473,090	104
4 Administrative costs of the distribution of royalties collected in the year prior to the target year	997,531	1,069,966	107
5 *Revenue from miscellaneous sales	0	42,866	
(3+4) 6 Total administrative costs	4,330,149	4,543,056	105
(1+2-4-5) 7 Adjusted net sales revenue	19,943,300	20,817,650	104
8 Authors' healthcare contribution	615,548	641,194	104
(6-8) 9 Operational administrative costs	3,714,601	3,901,862	105
(6/1) 10 Total administrative costs in proportion to net sales revenue	21.79%	21.71%	
(9/7) 11 Operational administrative costs in proportion to corrected sales revenue	18.63%	18.74%	

* From the financial year of 2018, revenue from re-invoicing and rentals must be indicated in this revenue category

The ratio of the amount collected and the amount effectively spent on the operation of Artisjus is shown by the so-called **total expense ratio**, calculated with the methodology prescribed by HIPO, the rate of which was **13.73%** for the year 2018.

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3. Relations with members and right holders, communication

3.1 Membership data

For the first time in our history, the number of Artisjus society members decreased by a few persons in 2018 (unfortunately, in 2018 we had more deceased members than members admitted). On the last day of the year, the Society had 2,006 members. At the same time, the number of non-society members entrusting Artisjus with the collective administration of their rights was 18,365. The Artisjus's Authors' Information System has 12,000 registered right-holding users.

3.2 Events; communication programmes and channels

The *#mutimithallgatsz* campaign, the very first audience campaign of Artisjus aimed at presenting the key role of musical works and songs in everyday life, won *Kreatív* magazine's Online Video Awards Golden Prize in the category of "Branded series/short films". In 2018 we took this idea further with the *#kösziadalt* social media campaign and the **Day of Songwriters**, and thus orchestrated the second large-scale audience campaign in the history of Artisjus. On 12 October 2018 we organized the Day of Songwriters for the first time. In the framework of this initiative, *Freddie*, *Gigi Radics*, *Bori Péterfy* and the members of *Margaret Island* thanked their songwriters for the lines of their respective successful hits in clip-like videos, in which the lyricists themselves also appeared, mimicking the lyrics to the original music. In these videos we also encouraged music fans to post in the social media using the *#kösziadalt* hashtag, and also thank the songwriters for their favourite songs.

Focusing on the needs of popular music composers, we organized the first **Songwriter Expo (DEX)** at Budapest Music Center in 2018. This professional day was the very first event specifically targeted at songwriters in the East-Central European region, but it was also a unique and much-needed event on a pan-European level. Our purpose with this initiative was to help and enhance the professional evolution and networking of Hungarian songwriters in the framework of an event organized on a much larger scale than the IZÉ series that had been hosted by Artisjus on a monthly basis. While in classical music, those aspiring to a career as composers can rely on institutionalized education, this kind of training barely exists if at all in the domain of popular music (for instance, a training programme for music producers is available). Our aim was to provide a hands-on experience for those who purchased a ticket to this event and ensure that participants could get personalized counselling on a one-on-one basis. Accordingly, participants were introduced to the secrets of the trade by top-level Hungarian and international representatives of the songwriting profession, who also shared their inspiring experiences. The event was a sell-out despite the fact that it was a paying programme.

Cooperation between songwriters was also facilitated by the **two international songwriters' camps** organized first in Budapest, then in Dunaszentmiklós with the support of Artisjus.

Budapest Music Expo (Hungexpo): in 2018, too, Artisjus was present throughout the three-day music and audio-visual expo organized by the Hungarian Association of Instrument Manufacturers (HANOSZ).

In 2018 we once again appeared at the classical music site of the **Valley of Arts** festival.

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In 2018 we also prepared our campaign aimed at music users. We selected the marketing agency suitable for our purposes so that we could enter the implementation phase in 2019, and after the Hungarian audience and songwriters, we could finally reach out to our third, equally important target group: commercial units and catering establishments that use music.

In addition to the above, we relied on our conventional communication tools as well in 2018: Artisjus Booklets, 51 authors' newsletters, 14 press releases, "Dal+Szerző" magazine and blog, mobile-optimized website with fresh contents, social media tools supporting the other communication tools (Facebook, Twitter and Instagram).

4. Distribution and documentation

Owing to the internal restructuring, the distributions carried out by the Department of Member Services were done in order, without any disturbances in 2018.

In 2018 the main amendments of the Distribution Regulation were the following (by topic):

- Modifications in connection with the declaration of works:
- Specification of the text of distribution regulations "HNY" (canned music royalties) and "ÜK" (private copying royalties), and specification of the scope of "other royalties"
- Specification of the distribution of DJ performances
- Distribution of foreign cable royalties
- Specification of the distribution of royalties after classical music performances
- Modification of (Point 4 of) the sub-edition regulation
- Modification of the classification of individual concerts
- Modification of the distribution of literary private copying royalties
- Regulation of the operation of authors' committees outside of meeting

5. Social, cultural and professional 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 2018 as well. In accordance with our Support Policy and the provisions of the Act on Copyright (Szt.) and the Act on Collective Management of Copyright (Kjkt.), our professional support activities were carried out directly by the Society. 25% of royalties due to unknown right holders or right holders whose residence is unknown, which were collected more than 3 years earlier, may be used for purposes designated by the Support Policy. The purpose that this amount is to be used for is determined by the Executive Board of the Society. The specific supports paid in 2018 are presented under Point 24 of the Supplementary Annex of the Business Report for 2018 as well as under Point 1.8 of the Transparency Report for 2018.

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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 2018 again, Artisjus hosted the international seminars and trainings organized by the European regional directorate of CISAC/BIEM.

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

In 2018 the Society had altogether 180 active employees.

The Society has projected a net royalty income of 15,715,987 thousand HUF (without VAT and basic administrative fee) for the year 2019.

14 March 2019, Budapest



Dr. András Szinger
Director General