

ANNUAL REPORT 2018-2019

TIMES ARE **CHANGING**

ANNUAL REPORT PRESENTED BY THE CHAIRMAN
AT THE ANNUAL GENERAL MEETING 29TH MAY 2019

Gramex delivered a satisfactory financial result of DKK 221 million for 2018, though reflecting a year of many changes.

Our efforts to ensure new revenue and focus on a tight cost control resulted in a strong financial result within radio/tv and public performance – income from retail shops, cafés, etc. – where Gramex co-operate closely with Koda.

Our radio and tv broadcast agreements remain our major source of revenue – in 2018, public performance increased by approx. 1.2 million. Compared to 2017 this only amounts to a small increase, but it is more than ever before. Part of the reason why the financial result shows only a slight increase in public performance is that several big customers decided to switch from agreements with Koda and Gramex on the use of commercial music to so-called royalty free music. At the same time, we are suffering from the negative effects from the increasing online shopping instead of in-store shopping as a growing number of shops are shutting down – shops that up to this time used music and had agreements with Koda and Gramex. Both Koda and Gramex are very aware of the challenges regarding public performance and we have launched a series of initiatives to beat off the pressure from online shopping and royalty free music suppliers.

In 2018, however, we recorded a significant decrease in distribution agreements – an area where Gramex only distribute the funds on behalf of others. The reason for the decrease of DKK 26 million in the amount at disposal is mainly that we did not handle the re-broadcasting funds on behalf of the producers and likewise that the amount distributed on behalf of the performing artists was significantly smaller than the year before. Separating the retransmission funds from the financial result, the financial result accordingly shows an increase of just over half a million.

In 2018, we received a decline in remuneration received for Danish public performance in the countries with which we have bilateral agreements.

1. FOCUSING ON CUSTOMERS AND CORE BUSINESS

Despite mounting pressure and lower prospects for 2019 than during the past several years we will remain a valued partner in the music business.

We expect to increase revenue in 2019 from our public performance activities despite pressure from online shopping and royalty free music suppliers. Koda and Gramex are dedicating resources in 2019 to visit shops and other customers that use background music and we are launching a joint campaign which by means of a music-smiley will highlight all the shops, cafés, and restaurants that have a music license with Koda and Gramex and therefore support the development of Danish music.

With the increased pressure on revenue in the years ahead in mind we will concentrate our focus on our core business in 2019 though we have duties assigned under the terms of our concession with the Ministry of Culture – we have an obligation to serve the interests of all rights holders and customers.

2. INCREASED EFFORTS TO BENEFIT MEMBERS

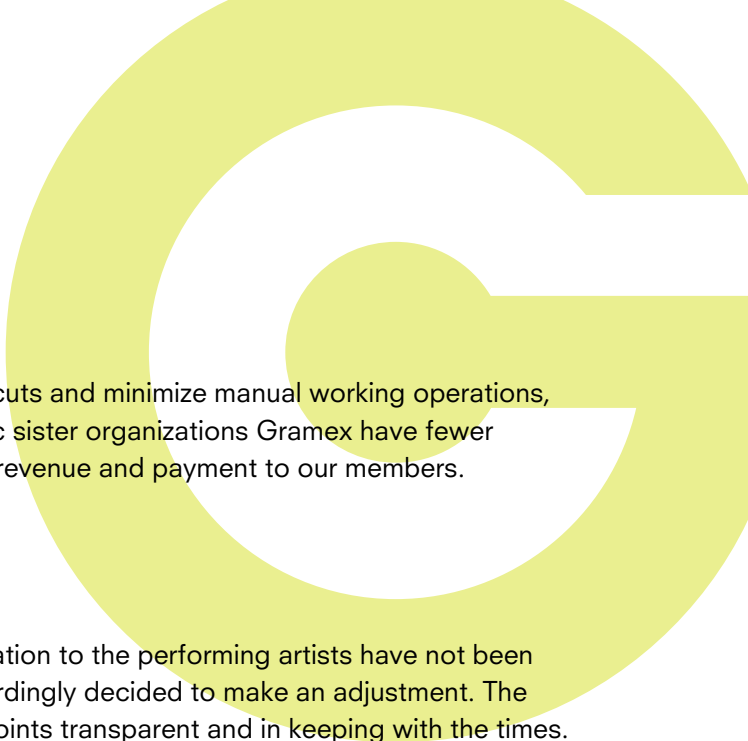
The quantity of data to be registered by our department “Members & Repertoire” (M&R) has increased considerably during 2018, resulting from the increasing self-publishing trend and increasing number of releases of EPs and singles rather than albums which accordingly generate many studio recording forms either online or in a paper form to be registered. To minimize the manual work flow and reduce paper and print-outs the executive board and the management team decided that as from 1 April 2019 Gramex only accept digital studio recording forms.

To prepare for the challenges of increasing data quantity and to improve our member service we implemented numerous operational IT processes which allow us to handle more reporting from our customers and enable us to make an even more accurate distribution directly to our members based on actual airplay. In addition, we introduce a new distribution category, instore radio, which includes music played in shops, cafés, fitness centers, etc. that haven't reported to Gramex before.

We will distribute remuneration to our members more frequently than we used to, to benefit our members and we will continue to intensify our IT developments to make it possible for our members to gain access to more data regarding their airplay.

3. INTENSIFYING OUR IT EFFORTS

In the past three years we have intensified our IT development to be well prepared for the future where our workload will increase as the volume of reporting from customers increases as well as the number of studio recording forms. It is an encouraging development though, because more reporting from our customers means a higher amount of remuneration to distributed based on airplay and not random check. The number of self-publishers is also increasing and the release pattern emerging is characterized by a format of EPs and singles rather than album format. This development is positive because it contributes to the diversity in the music business in Denmark – although our workload increases immensely as we must register more producers and studio recording forms. As a consequence, we are



developing new IT tools which will enable efficient shortcuts and minimize manual working operations, with the same number of staffs. Compared to our Nordic sister organizations Gramex have fewer employees, the lowest cost level, and by far the highest revenue and payment to our members.

4. UPDATING OUR POINT SYSTEM

Our point system that guides the calculation of remuneration to the performing artists have not been updated for years. The executive board of Gramex accordingly decided to make an adjustment. The adjustment was carried out to make the distribution of points transparent and in keeping with the times.

We register the points to each artist and each track according to Gramex' Rules of Distribution. The points are based on which part the artist plays on the track stated on the studio recording form when you report a release to Gramex – e.g. a soloist gets more points than a session musician, and band members get equal points.

The adjustment of the point system has the effect that more points than before will be allocated and thus the value of points in the various categories will be proportionately lower. The value of points indicates the value of one point for one minute in the various categories. The value of points is calculated once a year and depends among other things on the total number of points allocated. By way of example, an artist who receives twice as many points as before can accordingly not expect to receive twice as big a payment.

The new point system will form the basis of Gramex' payment this year in June, for airplay during 2018.

5. CONTINUING INTERNATIONAL EFFORTS

Like previous years, our international relations and bilateral agreements remain a priority area. The most recent agreement was signed in February with our Georgian sister organization GCA (Georgian Copyright Association) and includes both artists, producers and blank tape. Today, we have bilateral agreements with more than 43 sister organizations abroad and for that reason money for airplay abroad is certain to find its way back to our successful Danish artists; if you are a Danish artist on the international stage you don't have to pay extra for an agent – let Gramex do the work for you!

6. DATA ACCESSIBILITY ACROSS BORDERS

By the end of 2019, the international database VRDB2 and IPD-database will expectedly be operational across borders and collective rights management societies and we will gain easy and fast access to more valid data and an opportunity to share our valid data on Danish releases with our sister organizations abroad. As the difference in data quality varies a lot it is essential to strengthen the validity of the international databases. The more top data quality we can gain access to, the less work it takes for Gramex to validate the data. And easy access for our sister organizations to high quality data means improved accuracy in the distribution of remuneration. Therefore, Gramex, and our sister organizations, can ensure an even better exchange of remuneration across borders based on our bilateral agreements.

7. TAKING GOOD CARE OF OUR MEMBERS' PERSONAL DATA

By now, most people have heard about the General Data Protection Regulation (GDPR) which became effective on 25th May 2018. It is a new EU data protection regulation which among other things introduces a partial harmonization of the rules for handling personal data across the European countries. This implies new and more strict obligations for those who collect and handle personal data. Gramex accordingly made a thorough check of all our documents and processes and was fully prepared at the time the regulation took effect. Additionally, we will arrange annual GDPR-days to keep all employees updated.

8. GRAMEX FROM A SOCIAL POINT OF VIEW

Like many other copyright organizations, Gramex support Ophavsret Danmark financially and we participate in specific assignments when required. In 2018, Ophavsret Danmark have given special attention to the new DSM-directive (digital single market). The directive was passed by the European Parliament on 26th March.

We also take on social responsibilities beyond handling registration and distribution of remuneration from our customers to our members. That is why we contributed to a study to determine the gender spreading within Danish music – even in Gramex, three out of four members are male artists. It is important that the entire music business pay attention to the imbalance to ensure diversity in music.

During the past years we also made room for jobs for those who haven't been part of the labour market for a while and who are not able to work full time. In these circumstances labour market inclusion is an important lifeline and from time to time, we offer job training courses for a brief period or over an extended period doing e.g. manual registration. Our employees are grateful for the assistance and at the same time Gramex provide a workplace connection and a shortcut to the labour market for people who need a helping hand.

Our workplace is characterized by a good work environment and a strong music culture. We are always prepared to go the extra mile for our members, customers, and the music. These are fundamental drivers for working at Gramex.

9. MOVING TOWARDS 2022

Gramex is a major player for performing artists and producers – in terms of registration and collecting remuneration for released sound recordings, and making sure all musicians, artists, and producers are treated alike.

The future will bring about change for Gramex regarding revenue, potential new business and the handling of an increasing data volume and we need to have a strong focus on business development and keep a tight cost control. This is an ongoing focus area for the management and the executive board of Gramex – especially as more retail shops are closing and we are facing mounting pressure from so-called royalty free music providers.



We need new IT solutions and investments in IT operations and development in order to handle the continuing increasing volume of data which we are obliged to register according to our concession, without increasing the number of manual tasks or the number of employees. The management and the executive board of Gramex already initiated a specific IT strategy which will enable us to observe our obligation.

With actions already initiated to support the above challenges, the management and the executive board of Gramex are aiming at gaining traction among Europe's best collective rights management societies in 2022.

Laura Littauer

Chairman of the Executive Board of Gramex

During the year under review, the executive board has consisted of professor, Ph.D. Morten Rosenmeier, and from the producers' rights group Laura Littauer, chairman (Sundance), Casper Bengtson (Universal Music Denmark), and Mikkel Torsting (Warner Music Denmark), and from the artists' rights group Lena Brostrøm Dideriksen, vice chairman (Dansk Artist Forbund/The Danish Artist Union), Anders Laursen (Dansk Musiker Forbund/The Danish Musicians' Union), and Katja Holm (former Dansk Skuespillerforbund/The Danish Actors' Association), and the alternates Asger Steenholdt (musician) and Søren Krogh Thompson (Playground Music).