

A YEAR OF CHANGE

THE CHAIRMAN'S ANNUAL REPORT TO THE GENERAL MEETING ON 27 MAY 2021

Not surprisingly, 2020 was an unusual year – also for Gramex. Denmark and, not least, all our music venues and festivals were closed down for most of the year. Many of our customers had to shut down their businesses and silence the music for long periods at a time, while the live jobs that were cancelled meant our members lost substantial income. Instead of working, musicians and artists had to grapple with financial assistance packages and legal red tape. The industry also had to fight to make its voice heard and be taken seriously as a business sector in its own right. This sector was otherwise experiencing growth, contributing an amount of almost DKK 10 billion to the public coffers and providing the equivalent of more than 5,000 jobs in 2019 – before the COVID-19 lockdown.

Although all the cancelled concerts and festivals have greatly affected the industry – and our members' day-to-day economy in particular – the situation has had only a negligible impact on Gramex' income because, as we know, Gramex manages rights to the use of recorded – not live – music. However, the closure of restaurants, shops, gyms and similar establishments has strongly impacted Gramex, as this precise area accounts for a good 40% of our total income. We feel it keenly when these places close and the music stops. And so do the commercial radio stations that make their living from these very businesses' advertising, and this in turn impacts our income from these stakeholders.

Despite this, it is therefore encouraging that Gramex has succeeded in coming out of 2020 with an economic downturn limited to around 7 per cent compared with the previous year. Revenue lands at a total of 207 million against 223 million the year before, and we end up with a total amount to be distributed of 193 million compared to 208 million in 2019. A result we feared at this time last year would look completely different.

Around this time last year we also announced that John Kristensen would be replaced by Anne Sophie Gersdorff Schrøder, Fie, who took over as general manager of Gramex on 1 August 2020. Despite the upheaval caused by the moving and rebuilding work at Gammel Kongevej and the COVID-19 restrictions – situations that made it hard for the entire organisation to assemble at once – Fie threw herself into her new job and got off to an excellent start at Gramex. We owe great thanks to Thomas Maagaard Dyekjær who, as acting general manager, helped ensure her a smooth transition. We also wish to extend our sincere thanks to our dedicated employees for so warmly welcoming Fie and thus the prospect of many new plans for the future. They should be commended for their willingness and openness to change as we undergo a development process obviously complicated by the necessity of extensively working from home and meeting via Zoom. Fie has already launched a raft of new ideas, and we are looking forward to following the beginnings of this nascent culture as a new general manager takes the helm.

GRAMEX' INCOME IN 2020

Our radio and TV broadcast agreements continued to be Gramex' chief source of income in 2020. Although remaining generally stable, this level declined slightly, largely owing to the fall in advertising revenue which has affected the commercial radio stations' financial resources during the COVID-19 pandemic. Accordingly, income from radio and TV for 2020 totalled 103 million, compared with 104,6 million the year before.

Gramex' income from other public performance – music in shops, cafés, gyms, etc. – is the business area most severely hit by the COVID-19 pandemic. The closure of establishments such as shops, hairdressers, bars and gyms caused income to drop by approx. 17% in this area compared with 2019. Unfortunately, recovery in this particular area will certainly take some time. The situation at the start of this year, with businesses fully closed down, bankruptcies and hard-pressed finances, is expected to result in a further decline in 2021 compared with 2019, and there are concerns that we will not realise results on a par with those of 2019 until possibly 2024.

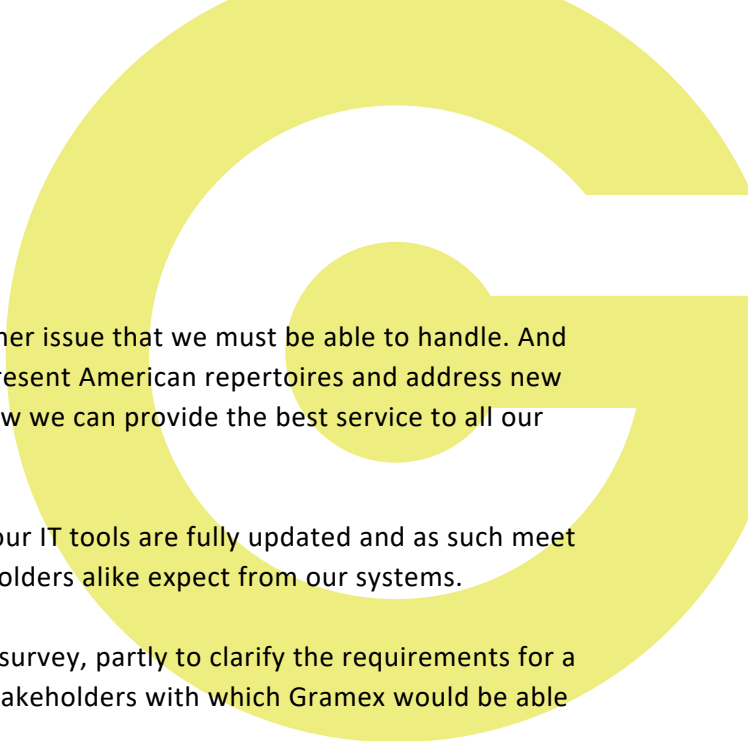
At times, royalty-free music has challenged income from other public performance, but we continue to work closely with Koda to highlight the value of music. The efforts to document and illustrate the positive impact of music on retail sales continue, and are even more relevant at a time when revenues are declining and finances therefore being squeezed on all fronts.

Gramex experienced unexpected and sustained growth in foreign income in 2020. In 2019 we saw a distinct increase in this income – a reflection not of more Danish music's being played than in the past, but rather of individual foreign organisations' inability to keep up with their disbursements. The scenario was repeated in 2020. Therefore, the drop in income from several foreign organisations is offset by distinctly higher income from a few of our foreign business partners. We know the COVID-19 crisis has also affected our foreign sister organisations, as it has Gramex, but since there is a slight time-lag in payments from other countries, we will not see the impact of the downturn experienced abroad until 2021 – a downturn that will range between 10% and 40% for the foreign organisations. Accounting for over 40% of the total income received from abroad, Germany and England combined continue to be our largest source of income from abroad.

GRAMEX RAMPS UP IT

Fortunately, even in a time of crisis – or perhaps precisely because of the COVID-19 crisis – many people have still had the courage to release new music. The increase in the number of releases over the past few years has therefore only continued. In 2020 alone, Gramex received almost 5,500 studio recording forms against around 4,000 the previous year.

The large rise in releases and an increasingly positive tendency for foreign artists to enrol directly in Gramex make extra demands on Gramex employees, who have to register far more releases, songs and rights holders as well as advise larger numbers of new producers. We have also noted that producers continue to trade extensively in their rights – repertoires and labels change hands



repeatedly, and thus, too, the associated income, another issue that we must be able to handle. And finally, it looks as though we will soon also have to represent American repertoires and address new VAT rules. For this reason, we continuously reassess how we can provide the best service to all our members.

To keep up with this natural trend, we have to ensure our IT tools are fully updated and as such meet the requirements that Gramex' employees and rights holders alike expect from our systems.

Accordingly, in the autumn of 2020, we launched an IT survey, partly to clarify the requirements for a future IT system and partly to investigate the market stakeholders with which Gramex would be able to collaborate on such a future IT solution.

At the start of 2021 the executive board adopted the administration's recommendations regarding the process going forward, and we expect to be able to make a final decision on a future IT set-up no later than in June. Although Gramex' systems urgently need modernising, the major expense entailed by such an undertaking will impact cost levels in the years to come.

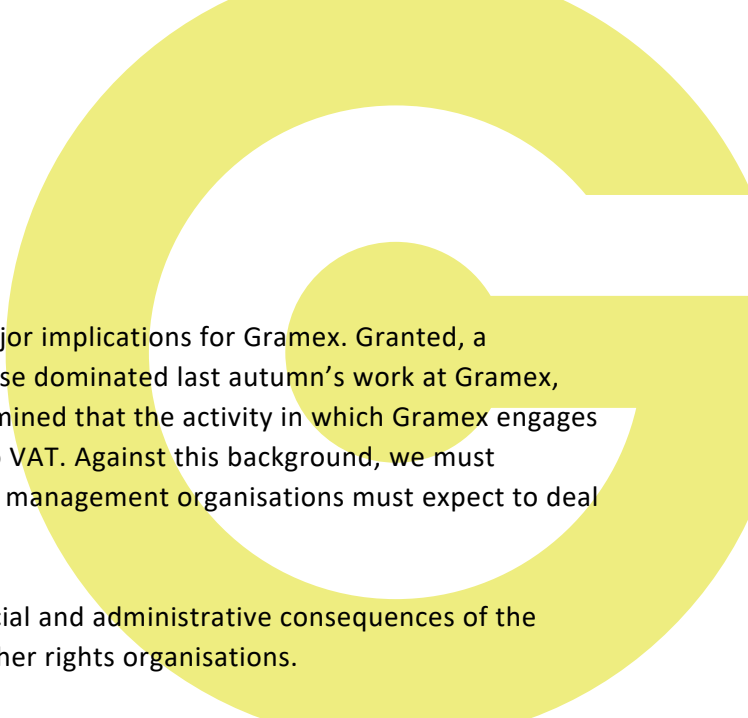
NEW EU JUDGMENTS EXPECTED TO IMPACT GRAMEX

While we note that industry developments – both in Denmark and internationally – in themselves are putting greater demands on Gramex' rights administration, 2020 saw two new EU decisions that will each have significant implications for Gramex' business and administration going forward.

In September, the Court of Justice of the European Union (CJEU) issued a judgment in a case between the Irish artists' organisation and Irish producers. Although the case largely deals with a different issue from that at stake here, it led nonetheless to a judgment concluding that the question of the extent to which foreign recordings are afforded protection in the same territories is not a matter that Denmark decides; this is a decision for the EU.

The EU has no regulation like the one we know in Denmark, which basically states that we only protect foreign recordings if Danish recordings are correspondingly protected in the other country. We cannot decide this type of 'quid pro quo' matter on our own, and the Ministry of Culture's rule in this regard must therefore be abolished. This particularly impacts Gramex in relation to the American repertoire, in respect of which we have not previously collected or distributed remuneration because the USA has no scheme like the Danish one.

Gramex is currently engaged in dialogue with the Ministry of Culture regarding the decision, and we are preparing for the possibility of having to renegotiate our agreements, now that Gramex has to collect and distribute remuneration for a different and larger repertoire than in the past. The American repertoire in particular is played broadly on the radio, on television, in shops, restaurants and gyms, and in many other establishments. We will now be required to collect and distribute remuneration for this. It is still too early to tell how this will impact Gramex members – but we will know more next year.



In 2020, the CJEU heard another case that will have major implications for Gramex. Granted, a judgment was not issued until early 2021, but as the case dominated last autumn's work at Gramex, the decision should be mentioned. The CJEU has determined that the activity in which Gramex engages – as do other management organisations – is subject to VAT. Against this background, we must anticipate changes to the Danish VAT rules, and Danish management organisations must expect to deal with VAT in future.

Gramex is well under way with its analysis of the financial and administrative consequences of the decision and is also discussing the question with the other rights organisations.

We do not yet know when the Ministry of Taxation will propose a bill to change the current VAT exemption, but we can expect it to occur in the course of 2021. I am therefore sure a substantial part of next year's annual report will concern this amendment.


THANK YOU FOR YOUR FIGHTING SPIRIT IN 2020!

2020 was a highly unusual year for us all. However, it was also a year that clearly demonstrated how vital music is in the life of a nation – particularly at a time of crisis. Concerts, festivals and the world we share through music were among the things many of us missed most. And it was music, songs and lyrics that ultimately brought us together and created new forms of community – together but from a distance.

DR Audience Research Department's analysis of media consumption in Denmark 2020 showed that during the lockdown, not only did we use video calls, online meetings, news and television more than normal, we also streamed more podcasts, radio and TV programmes.

Now, finally, brighter times lie ahead – summer is just around the corner, and we are shaking off the corona virus. However, we should probably expect its after-effects to linger for some time – some aspects of life will rapidly return to normal, others will take longer or never do so, while new habits have come to stay. No matter what, we will follow the market closely and do whatever we can to steer Gramex as best possible through the upcoming – hopefully less turbulent – times.

Until then, I would like to take the opportunity to thank you for your fighting spirit and commitment in 2020. Thank you to all our members, working and striving for your music even under impossible conditions. Thank you to all our customers, battling for your businesses and knowing that music really does make a difference. Thank you to all Gramex employees for the tremendous efforts you put in while working from home throughout a long and crazy year. And thank you for so warmly receiving our new general manager, Fie, who from her very first day at the helm has felt welcome and supported. She is already well on her way to steering Gramex safely into the future – despite her having to set off in rather choppy seas.



Last – but by no means least – our profound thanks to vice chairman Lena Brostrøm Dideriksen, who resigned as chairman of the Danish Artists’ Union and is now handing over the executive board microphone after almost 20 years of uncompromising work for artists, but beyond question also for Gramex’ best interests. Lena has been an invaluable partner on the board, a strong discussion partner for the chairmanship and a prominent driving force in terms of building bridges between artists and producers in a time of change.

I promise that we – the executive board along with management and the rest of the organisation – will continue to fight for rights holders, for the music and for Gramex. And I believe that before long we will again be able to celebrate successes and good results.

Take care of yourselves, of each other and of the music.

Laura Littauer

Chairman of the Executive Board of Gramex’

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During the year under review, the Executive Board has consisted of from the producers’ rights group Laura Littauer (chairman), Søren Krogh Thompson and Jakob Plesner Mathiasen and from the artists’ rights group Lena Brostrøm Dideriksen (vice chairman), Nanna Klingsholm and Jens Skov Thomsen as well as the seventh member Morten Rosenmeier and the substitutes Morten Ingholt and Jesper Løvdal.