

gvl

Gesellschaft zur
Verwertung von
Leistungsschutzrechten

GVL in 2014

The world is a stage.
We support the act.

Foreword by the Managing Directors

Dear Madam or Sir, dear GVL members,

The past financial year was a multi-faceted year for GVL, during which we were able to make important progress in many areas. First of all, we would like to mention our revenues: Total returns for 2014 amount to EUR 163.4m and are thus EUR 12.9m higher than in the previous year. We are particularly pleased about such a clear increase of 8.5% compared to the previous year because it reflects the high value of the creative and economic performance of our artists, producers and event organisers. We were therefore able to increase our net distributable amount by EUR 15.7m to EUR 119.7m compared with the previous year.

Let us now take a chronological look back: Right at the beginning of 2014 we had some

positive news: In January, after many years of negotiation, the central collection and distribution organisation for private copying levies in Germany (ZPÜ) managed to conclude new general agreements with the majority of the hardware industry for private copies made on computers. Due to the back payments made to GVL amounting to EUR 43.5m, we were in a position to completely dissolve the receivable items we had to block in our accounts and pay out the PC revenues during 2014 to our members. Despite being pleased with this success we must observe that we still have a long way to go to cross the finish line of our negotiation marathon with the hardware industry which has lasted over ten years now. Due to the fact that no agreements were reached on consumer electronics, tablets and smartphones, our members have to continue to wait for a substantial part of the remuneration they are entitled to.

There is, however, a silver lining concerning a part of the needed improvements: As already

announced in the coalition agreement, the draft version for the new German law on collective management organisations (VGG) presented in June 2015 contains important procedural improvements: Instead of the compulsory deposit for withheld remuneration that we had been demanding for years, the draft now at least provides an entitlement to a security deposit by making a guarantee for payment. This is not entirely in line with GVL's expectations as it only relates to private copies on storage media and devices, and does not include the remaining statutory remuneration entitlements (broadcasting rights, public performance). The planned speeding up of the procedures to set tariffs, on the other hand, is something we welcome unreservedly, because it guarantees that our artists, producers and event organisers will finally receive the remuneration for private copying of their performances within an adequate timeframe – after years of delays caused by the hardware industry. The draft version, made up of 139 paragraphs, contains

a multitude of specifications and thus exceeds the German Copyright Administration Act – still in force at this time and consisting of approximately 20 paragraphs – by far. Additional formalities of a generalising nature do not automatically create more quality; they do, however, produce additional costs in any case. We are going to present our opinion on the draft for a law on collective management organisations to the German Federal Ministry of Justice.

Let us take a closer look at the economic key data: A major part of the increase in revenue mentioned above stems from remuneration from reproduction and copying rights, amounting to EUR 35.1m (2013: EUR 22.9m). Due to the fact that we did not receive the relevant payments, a partial amount of EUR 20.3m has to be allocated to the balance item of new outstanding amounts and therefore will be blocked from being paid out, whereas the remaining EUR 14.8m in remuneration for reproduction and copying

rights constitute actual received payments and therefore distributable amounts. The outstanding amounts blocked in the previous years could be dissolved altogether – except for EUR 418,000 for public performance (for 2013) – without any value adjustments having to be carried out. In this respect, we see this as a confirmation of our conservative policy of measuring receivables. Furthermore, GVL's income situation is stable in all areas and corresponds approximately with the previous year. The cost rate prior to any amortisation has gone down to 6.8% (previous year: 7.1%), despite the continued increase in staff numbers. Compared to other national and international collective management organisations, it thus remains low – a result of our efforts to work as efficiently as possible on behalf of our members.

Due to a member challenging the validity of the Board elections 2012 by lodging an appeal with the Berlin Regional Court, we decided to hold the rights holders' assembly in February

2014, one year earlier than anticipated. During said assembly, new elections for GVL Board members were held, taking the corrections and comments made by the court into consideration. We focussed on creating the legal certainty required for our Board's activities and strengthening our members' trust in the legitimacy of our committees. As we set very high quality standards at our rights holders' assembly 2014 we are confident that another appeal by the same member shall be decided in our favour; this time the member lodged complaints which are completely the opposite of the previous ones lodged with the District Court Berlin.

As the EC decided to extend the term of neighbouring rights from 50 to 70 years in 2011, we have started creating a specific conceptual plan for the distribution of the additional revenue collected. In particular, the GVL tariff committee, where artists and record companies are represented in equal parts, has been working actively on finding



a solution representing all interests for the distribution of such additional income to artists. The law provides that musicians who received a one-off payment 50 years ago shall receive a 20% share of the additional annual gross income collected due to the term extension. The central obstacle for a fair and practicable distribution is, however, the difficult data situation. It is nearly impossible for producers of sound recordings to determine today who contributed to a production 50 years ago. Likewise, artists can only provide the relevant documents and evidence on very rare occasions. As the so-called "term extension" applies Europe-wide, we are collaborating intensively with our sister societies.

We had a very active collaboration with our partners in 2014 in many other areas. We are particularly pleased about the increase in collections from foreign collective management organisations and the distribution to our artists and producers. Apart from entering into six new reciprocal agreements with our sister societies last year, we also cultivated the exchange with our existing partner and umbrella organisations intensively. In October 2014, we hosted the global PRC (Performance Rights Committee) meeting of more than 80 representatives from the music industry and delegates of our worldwide sister societies, together with IFPI London (International Federation of the Phonographic Industry). Our open discussions with the participants underlined the importance of GVL in a context of international collaboration and provided us with the opportunity to look at our own operational business from an international perspective again. The conference attendees were enchanted by the evening event on the roof of the Berlin Reichstag where they had the opportunity to look into the plenary hall of the German Parliament from the glass dome. They were literally able to see for themselves how transparency was practised in the modern German political system.

One of the many subjects discussed during the PRC meeting was the equalisation of remuneration between neighbouring rights and copyright, an issue which GVL has continued its campaign during the last year. At least a partial breakthrough could be achieved by GVL in June 2014: The German Federal

Court of Justice referred the decision relating to the increase of GVL's share in GEMA's tariff for public performances back to the Higher Regional Court Munich. The Higher Regional Court Munich had in its first decision in September 2012 provided for an increase of the current 20% to a mere 30% of the authors' remuneration, something we considered to be a continued and unfair disadvantage for our membership which is in excess of 140,000 individuals. In the ensuing reassessment by the Higher Regional Court Munich we see a new chance that artists and producers will receive an adequate remuneration compared to the authors in future.

In 2014 we have initiated and advanced many processes regarding our internal modernisation. Starting with the migration to a usage-based distribution system in 2010, GVL has been systematically modifying parts of its programmes and databases for several years now. At the same time, general software standards have been rapidly developing further over the last few years. As a consequence, 2014 was marked by a new technical dawn for GVL: In the course of an encompassing stocktaking process, we have scrutinised GVL's entire software architecture and checked its sustainability. In this multi-stage procedure, which was accompanied by external process and IT experts, the results from the analysis shall be transferred into specific action and implementation steps in 2015.

The impending technical reorganisation shall tie up many resources within GVL over the next three years. We are, however, convinced that the effort is worthwhile:

Berlin, July 2015



Dr. Tilo Gerlach
Managing Director

A technical infrastructure with modern IT solutions shall strengthen and continually expand our position within a competitive international market environment. We also expect substantial synergies within the area of national and international distribution which our members will benefit from directly, and where the investments to be made shall pay for themselves within just a few years.

A new feature for GVL is the seven-member works committee, founded in 2014. As representative of the continuously grown workforce, the works committee accompanies the modernisation and change process launched four years ago into its next phase.

GVL also presented its new face to the outside world: In the middle of the year, we could press the launch button for our completely revamped website in line with our modern corporate design, developed in 2014. The contents and functionalities of the website are being continuously expanded.

In 2014 we completed further substantial steps of our far-reaching development process together with our associates, members of the Board and partners. A special thank you is dedicated to our staff, counting nearly 150 employees, who are pushing forward our vision for GVL as one of the most modern collective management organisations in Europe with their great enthusiasm, commitment and team spirit.

We hope, dear readers, to have been able to give you some interesting insights into "our" 2014 with this report.



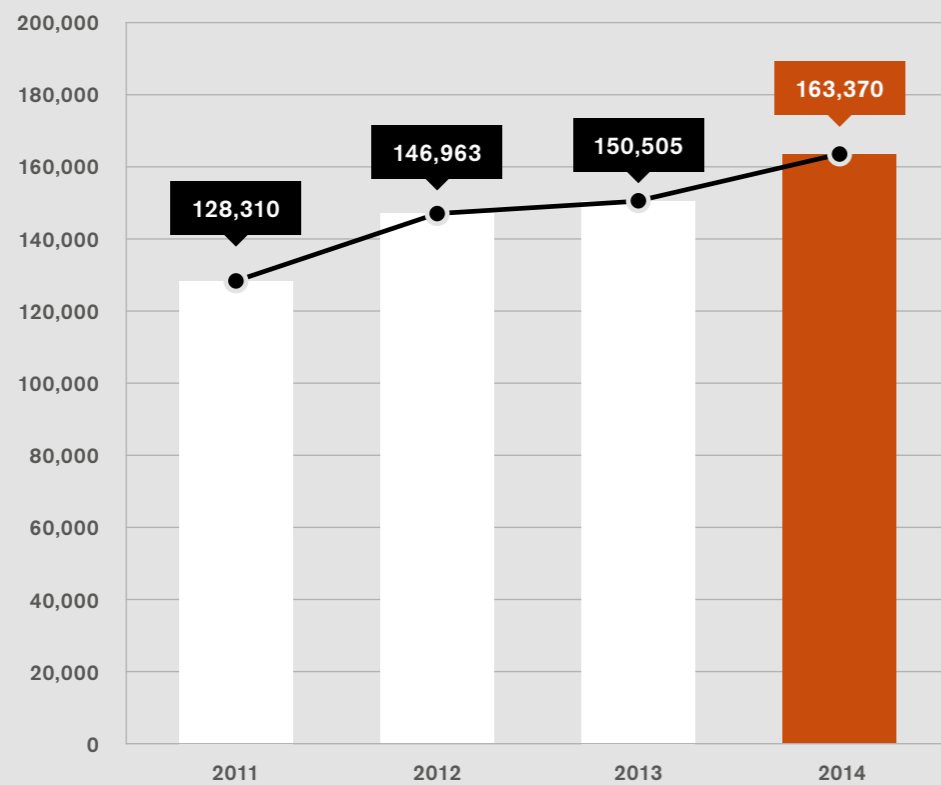
Guido Evers
Managing Director

GVL operating figures

| in '000s Euro | 2014 | 2013 | Deviation from the previous year 2014 2013 |
|---|----------------|----------------|--|
| Broadcast remuneration | 80,275 | 81,322 | -1.3% |
| Public performance remuneration | 39,339 | 38,646 | 1.8% |
| Copying/reproduction remuneration | 35,084 | 22,944 | 52.9% |
| Rental and lending remuneration | 2,844 | 3,717 | -23.5% |
| Remuneration for the cable re-transmission of artistic performances | 2,328 | 2,049 | 13.6% |
| Other income and interest | 3,499 | 1,828 | 91.4% |
| Total revenues | 163,370 | 150,505 | 8.5% |
| Personnel costs | 7,353 | 7,016 | 4.8% |
| Commission for collections | 5,851 | 5,879 | -0.5% |
| GVL – own expenditures | 4,280 | 4,289 | -0.2% |
| Write-offs, other and extraordinary expenditures | 2,165 | 2,704 | -19.9% |
| Grants | 3,433 | 3,569 | -3.8% |
| Total expenditures | 23,081 | 23,457 | -1.6% |
| Gross distributable amount | 140,289 | 127,049 | 10.4% |
| ZPÜ – blocked funds | 20,299 | 22,600 | -10.2% |
| GEMA – blocked funds | 264 | 418 | -36.6% |
| Net distributable amount | 119,726 | 104,031 | 15.1% |
| Annual surplus | 0 | 0 | 0% |
| Balance sheet total | 363,036 | 306,800 | 18.3% |
| Number of employees/annual average | 142 | 133 | 6.8% |
| Number of members | | | |
| Performing artists | 134,720 | 133,001 | 1.3% |
| of whom musicians | 117,256 | 116,216 | 0.9% |
| of whom word performers | 17,521 | 16,841 | 4.0% |
| Producers of sound recordings | 9,982 | 9,566 | 4.3% |
| Music video producers | 12 | 12 | 0.0% |
| Event organisers | 57 | 56 | 1.8% |
| GVL members total | 144,771 | 142,635 | 1.5% |

Total revenues

2011–2014



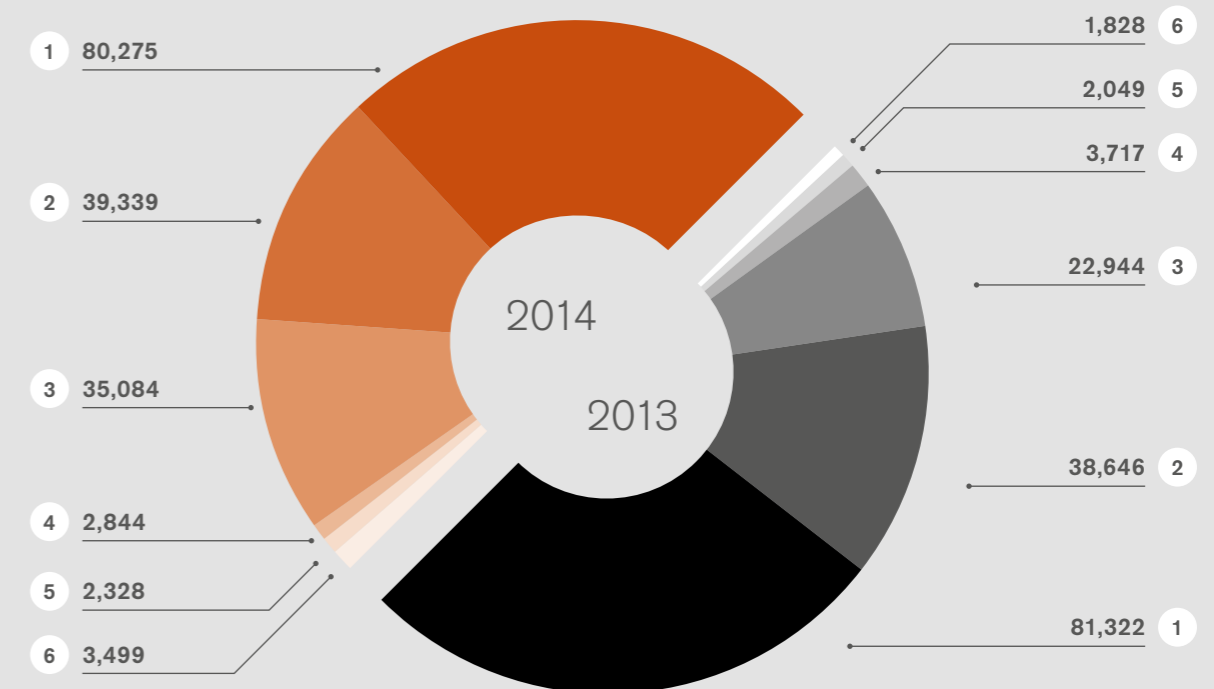
in '000s Euro

In 2014, the total revenues have continued the rising trend of the previous years. The increase of the income by approx. EUR 12.9m to EUR 163.4m results mainly from the back payments for private copying and from the continued specification of receivables against ZPÜ. EUR 20.6m for distribution had to be put in suspense since no actual payments have been made to GVL yet for a part of the accounted receivable for private

copying (EUR 20.3m, collections via ZPÜ) and public performance (EUR 264k, collections via GEMA).

Revenue structure

2013 | 2014



- | | | |
|-----------------------------------|-------------------------------------|---|
| 1 Broadcast remuneration | 3 Copying/reproduction remuneration | 5 Remuneration for the cable re-transmission of artistic performances |
| 2 Public performance remuneration | 4 Rental and lending remuneration | 6 Other income and interest |

in '000s Euro

Even during the financial year 2014, broadcasting revenues were by far the biggest income contributors for GVL: With an amount of EUR 80.3m, licensing fees paid to GVL by radio and TV broadcasters, based a.o. on their advertising income stayed about the same compared to the previous year. Income from public performance has increased slightly by 1.8% to EUR 39.3m. With a view to GVL's demand for a basic equality of remuneration

for artists and authors and the model case proceedings currently underway, GVL is striving to increase the income for this area in future. Rental and lending income decreased in 2014 by approx. EUR 0.9m, considering that – in contrast to 2014 – income relating to other periods (2011 and 2012) was included in 2013. Rental of sound recordings in public libraries also fell sharply. GVL was able to secure EUR 2.3m in collections for cable re-

transmission – due to payments relating to other periods, this is 13.6% more than in the previous year. Due to the increased financial investment of the remuneration reserved for distribution and an optimised investment policy, the interest rates in the financial year 2014 could nearly be doubled: to EUR 2.6m. Finally, other operating income of EUR 0.9m (previous year: EUR 0.4m) could be added.

Distribution

Distributable amounts 2011–2014

GVL pays out on a usage-based distribution scheme. If our artists' or producers' productions are used, an equitable remuneration is passed on to them.

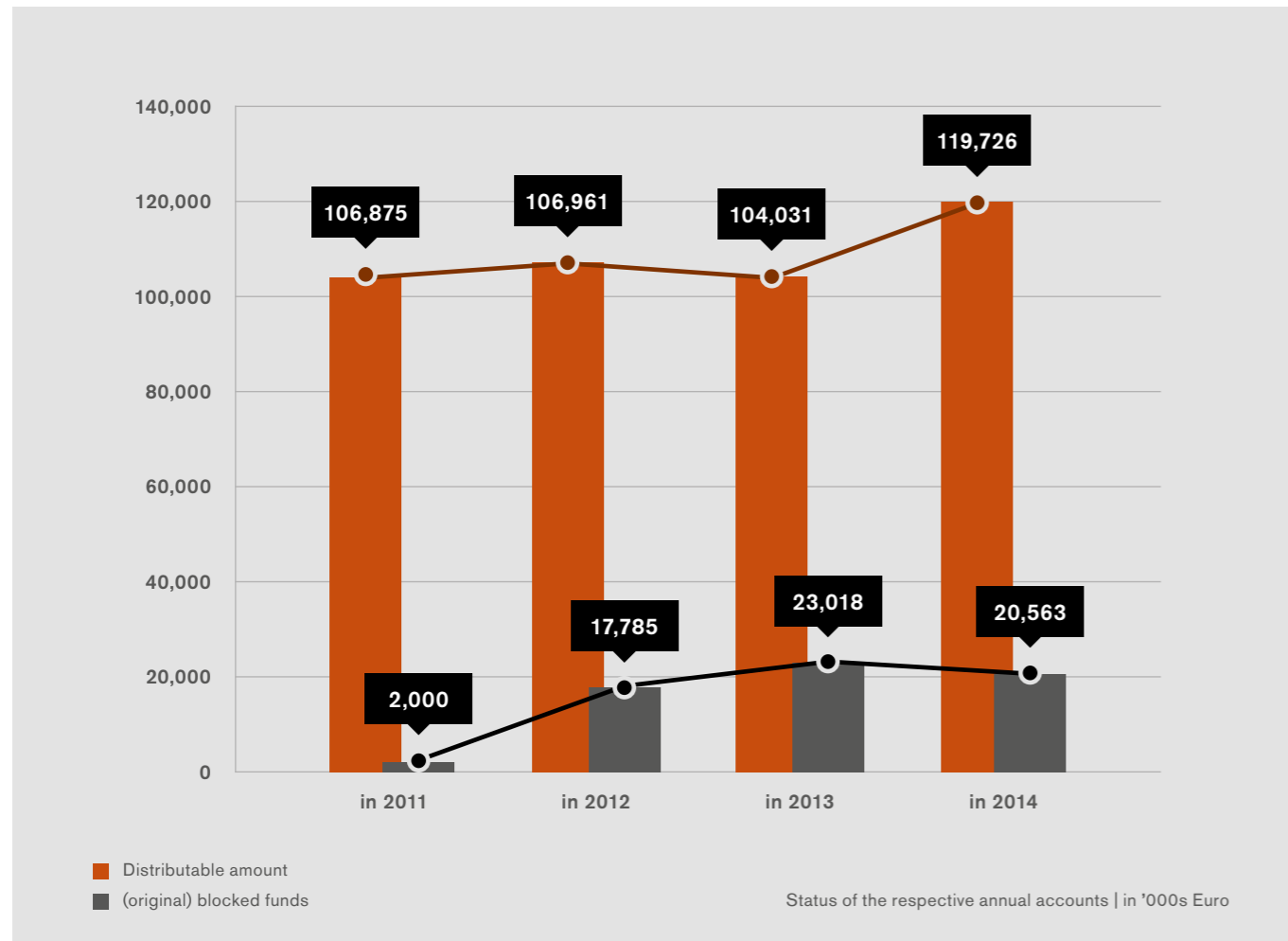
This doesn't only apply to Germany. GVL members can assign their rights to us for countries where we have reciprocal agreements with the respective national collective

management organisations – at no extra cost. We subsequently make sure that performing artists and producers receive remunerations when their productions are used abroad.

Distributable amounts per financial year

For its financial year 2014, GVL can report a distributable amount of EUR 119.7m, that's EUR 15.7m more than in the previous year (see chart). The reason for this considerable improvement is an increase in copying remuneration, including the tariff

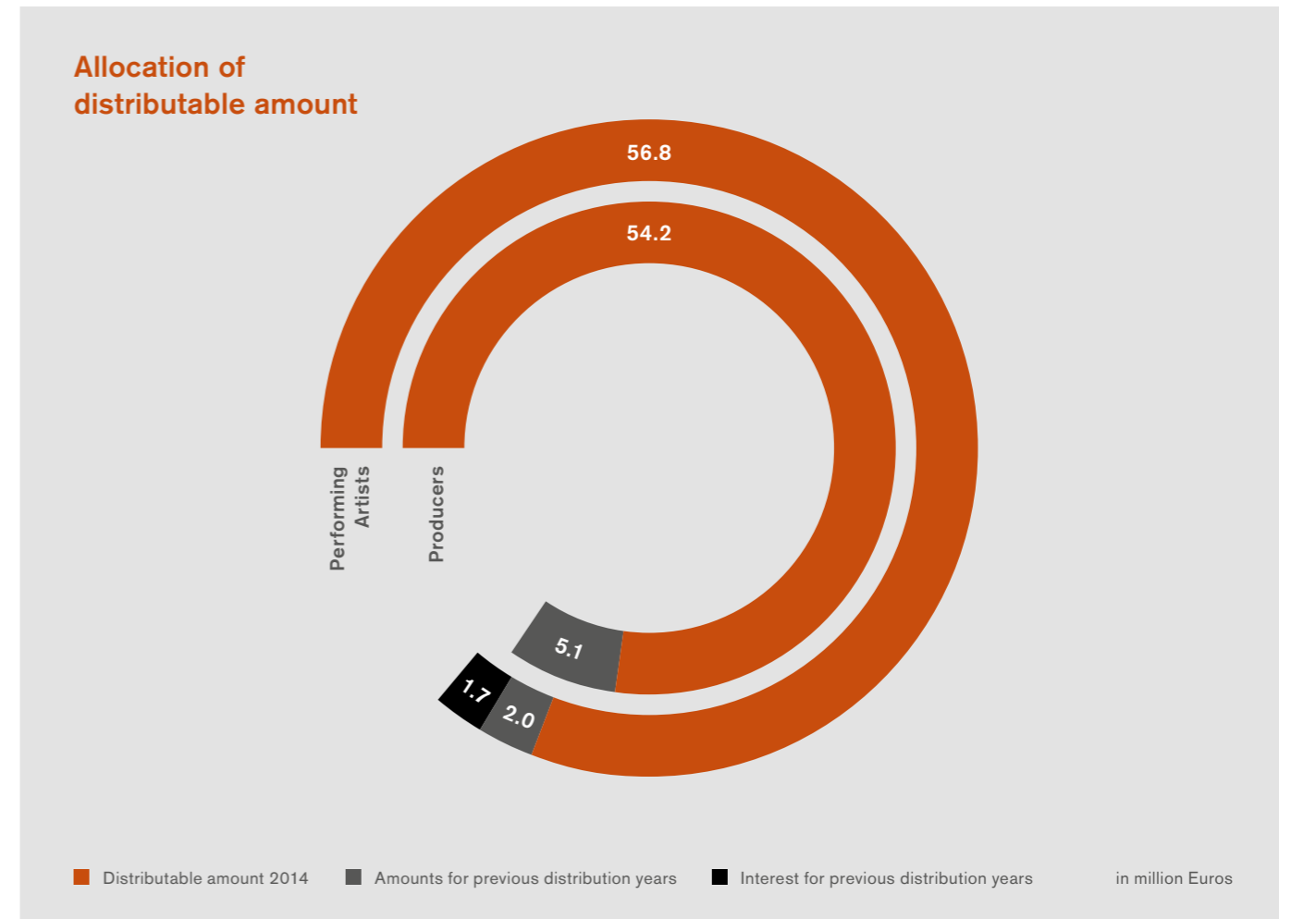
for school books, to EUR 35.1m (previous year: EUR 22.9m). Of the aforementioned EUR 35.1m, a share of EUR 20.3m must, as described previously, be put on hold from the distribution process due to the fact that the monies have not been paid by the ZPÜ yet.



The gross distributable amount relates to the revenue collected for distribution during financial year 2014. As mentioned above, we had to block funds from being distributed, as a certain portion cannot be made available for distribution due to the lack of funds received. The resulting net distributable amount was reduced by some amounts relating to previous distribution years in order to guarantee an allocation of funds to the distribution year on an accrual basis. The amounts relating to financial year 2014, due for allocation to another distribution year, were credited to the respective distribution year.

The distributable amount available can be allocated among the relevant rights holders' groups as follows:

| in million Euros | Artists | Producers | Total |
|---|---------|-----------|-------|
| Gross distributable amount | 74.6 | 65.7 | 140.3 |
| Temporarily blocked funds | -14.2 | -6.4 | -20.6 |
| Net distributable amount | 60.5 | 59.3 | 119.7 |
| Amounts for previous distribution years | -2.0 | -5.1 | -7.1 |
| Interest for previous distribution years | -1.7 | ./. | -1.7 |
| Distributable amount 2014 | 56.8 | 54.2 | 110.0 |



International remuneration exchange

GVL represents the interests of its members worldwide. If productions are used abroad, we ensure that artists and producers receive the money collected for the worldwide usage of their productions.

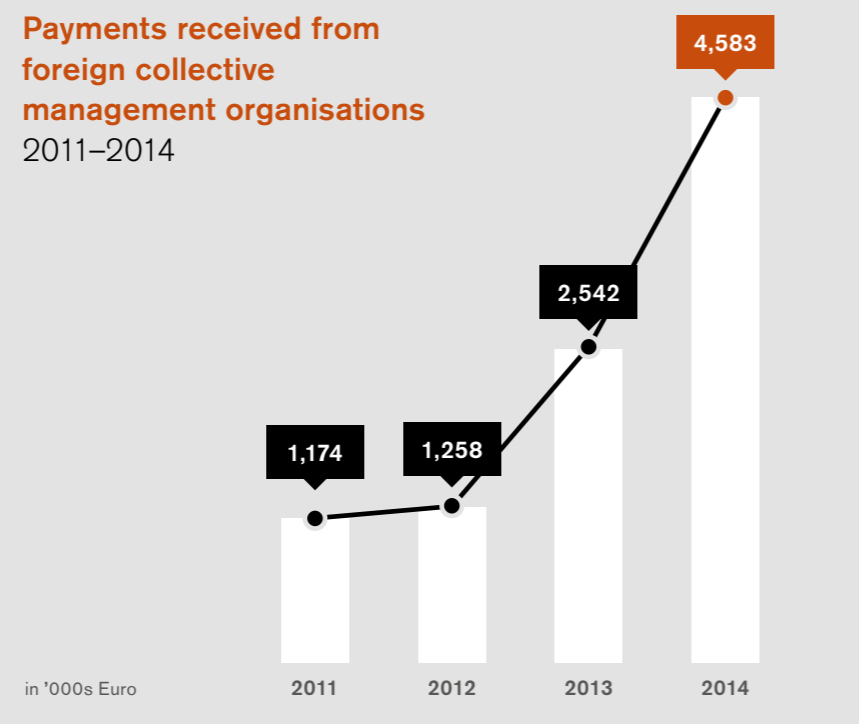
As a collective management organisation, GVL acts as a mediator between rights owners and rights users – both at national and international level. In order to do so, it actively maintains a regular exchange with its foreign sister societies. Due to the migration to a usage-based distribution system for artists (the producers already had such a system), GVL has continued to open itself up to international markets. At the end of 2014, GVL had reciprocal agreements with over 40 collective management organisations in 25 countries. Among these agreements are six bilaterals which have been signed in 2014. During the last few years, a large-scale country coverage could be achieved for performing artists in Europe and North America. The work is not done yet: Our goal is to unlock further markets for producers and artists.

There are other aspects to 2014 being a successful year with regards to international activities: Payments received from foreign sister societies arising from reciprocal agreements could be increased by 80% to EUR 4.6m compared to the previous year. Another positive development in this context is the continuously rising reciprocal payments from direct licences to users in foreign territories subject to multi-territory agreements.

New reciprocal agreements in 2014

| Country | Collective management organisation |
|-------------|---|
| Austria | LSG-Interpreten (artists – sound recordings) |
| Canada | ACTRA PRS (unilateral, artists – sound recordings) |
| Denmark | Filmex (artists – films/series) |
| Latvia | LaiPA (producers of sound recordings, artists – sound recordings) |
| Netherlands | NORMA (artists – films/series) |
| Norway | GRAMO (artists – sound recordings) |

Payments received from foreign collective management organisations 2011–2014



GVL – an international partner

Cooperation in times of globalisation

We look after our members' interests beyond Germany's borders. Apart from our cooperation with our foreign sister societies, we are also active within the relevant umbrella organisations for artists and producers.

Umbrella organisations



An increasing globalisation is influencing the work of all collective management organisations worldwide: The repertoire does not recognise country borders; in addition, the exchange of data and remuneration between sister societies is constantly increasing. In order to further improve the international dialogue, there is the international umbrella for performing artists, SCAPR (Societies' Council for the Collective Management of

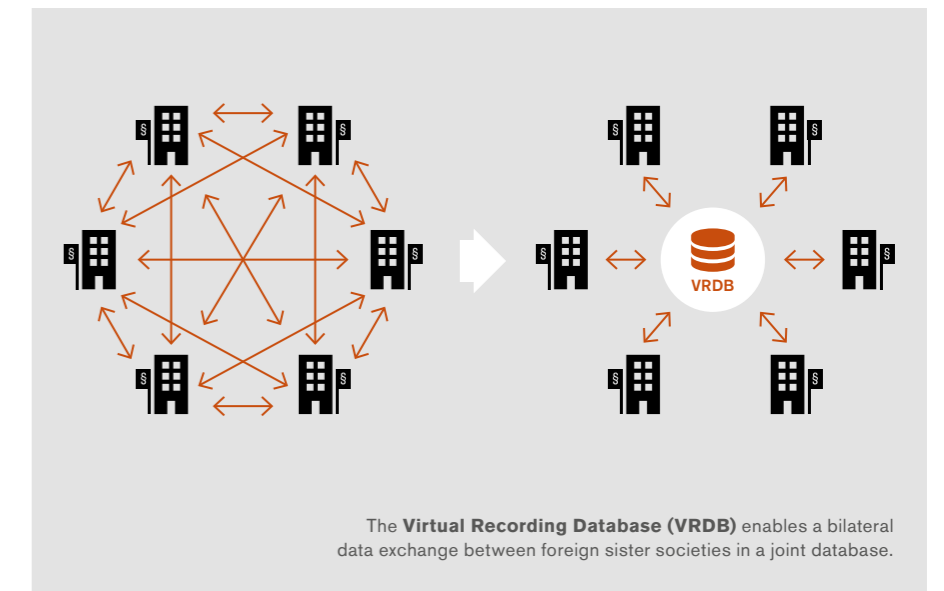
Performers' Rights), which acts as a platform for the cooperation between artists' collective management organisations. On the producers' side, the international cooperation takes place in particular via IFPI International (International Federation of the Phonographic Industry).

GVL works closely with both organisations in order to continue the optimisation of international rights management.

International database project VRDB

Within SCAPR and in coordination with the IFPI, the development of a global platform for the repertoire exchange was spurred on in 2014 in order to replace the bilateral data exchange under the scope of the reciprocal agreements with centralised functionalities. The so-called Virtual Recording Data Base (VRDB) is expected to facilitate international rights management between its more than 40 participating collective management organisations worldwide. GVL is heavily involved in the development of the VRDB. Last year, the focus was placed on establishing joint business rules and defining the database context.

First steps to develop the database have been initiated. As far as the VRDB development plans are concerned, the interests of artists and



producers of sound recordings are considered equally; this is an important aspect for GVL as a representative for both rights owners' groups (Joint Society). It is quite obvious that the challenges for a project involving the

development of a global database are unique – both for the GVL project team and all the other collective management organisations. The effort, however, is well worth it with a view to the synergies that can be expected.

International presence



MIDEM

GVL has been attending MIDEM (Marché international de l'édition musicale) in Cannes for the last five years. This exhibition is one of the most important international events of the business and welcomes representatives and artists of the creative sectors music and advertising. There has also been an increase in attendees from the technology sector. Attendees from 75 countries flock to MIDEM, confirming the exhibition's international orientation. Many politicians also attend the exhibition. They seek information

on developments in the sector or look for discussions on current issues with the various industry representatives on site.

GVL uses this platform to exchange experiences with its international partners.

In 2015, nearly 50 companies showcased themselves to an international audience at the German joint stand, the biggest stand at MIDEM. GVL was represented by Guido Evers who summarised the event as follows: "MIDEM has given us deeper insights into the current music trends, but, above all, it is an excellent opportunity to meet a number of decision-makers and international colleagues in one place and push issues forward."



Guido Evers, Managing Director GVL (second from left), with Markus Bos (CEO SENA), John R. Kristensen (CEO GRAMEX Denmark), Anette K. Corneliusson (Head of Members & HR GRAMEX Denmark) and Konstantin Vogel (Team Lead International Affairs, GVL) at MIDEM 2015.

International activities

Against a background of more than 144,000 GVL members, GVL is promoting copyright and neighbouring rights at a political and social level. At the same time we intend to strengthen the awareness of the wider public about the importance of copyright and neighbouring rights.

Implementation of the EU Directive into German law

Our fiduciary activity as mediator between rights owners and rights users is mainly influenced by the legal framework. The German Federal Government and the Parliament are currently faced with the task of implementing the EU Directive on the collective management of copyright and related rights into German law by April 2016. The Directive creates uniform minimum standards in the area of collective rights management at a European level for the first time. It is expected to provide legally compliant conditions for cross-border activities of collective management organisations in Europe.

The German Federal Government presented the draft containing 138 paragraphs which will replace the current law. For us, the future Collecting Societies Act is a "Magna Carta" which contains a couple of very complex

questions. We are currently in touch with the Federal German Ministry of Justice in order to exchange opinions and discuss the matter. While the current draft law contains many sensible items, it entails a degree of complexity and density of regulations which comes close to an over-regulation. It also lags behind the relevant requirements when it comes to some rather essential points. GVL's main request to the legislator is that they ensure there won't be a distortion within the European competitive market due to a potentially different implementation of the EU Directive by other European countries. The aim is rather to create the same rules of the game and conditions for all collective management organisations – for a fair competition in Europe, where German collective management organisations may prove their efficiency.

Copyright and neighbouring rights initiatives

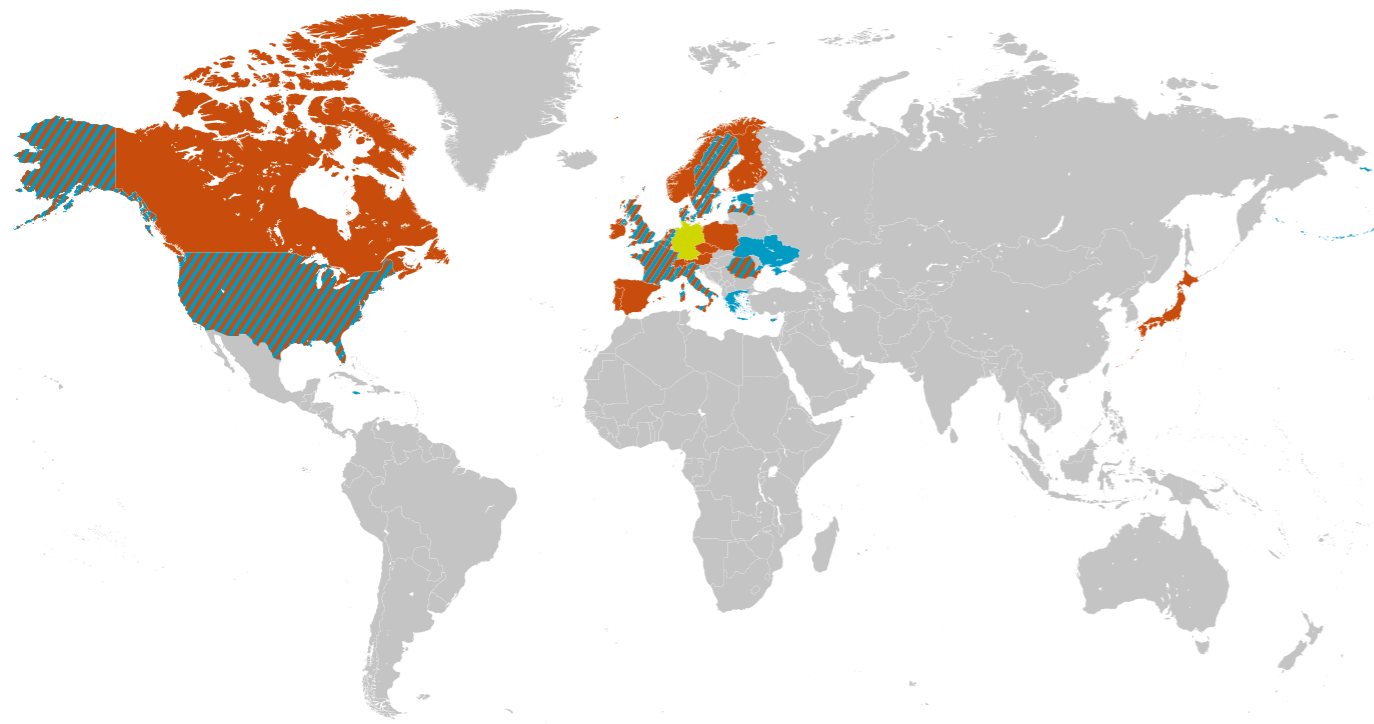
GVL's work relies on a strong copyright both on a national and international basis. Therefore, we support society-based initiatives to strengthen copyright and neighbouring rights, such as the initiative "Creators for Europe".

In the context of the public consultation of the European Commission on the copyright

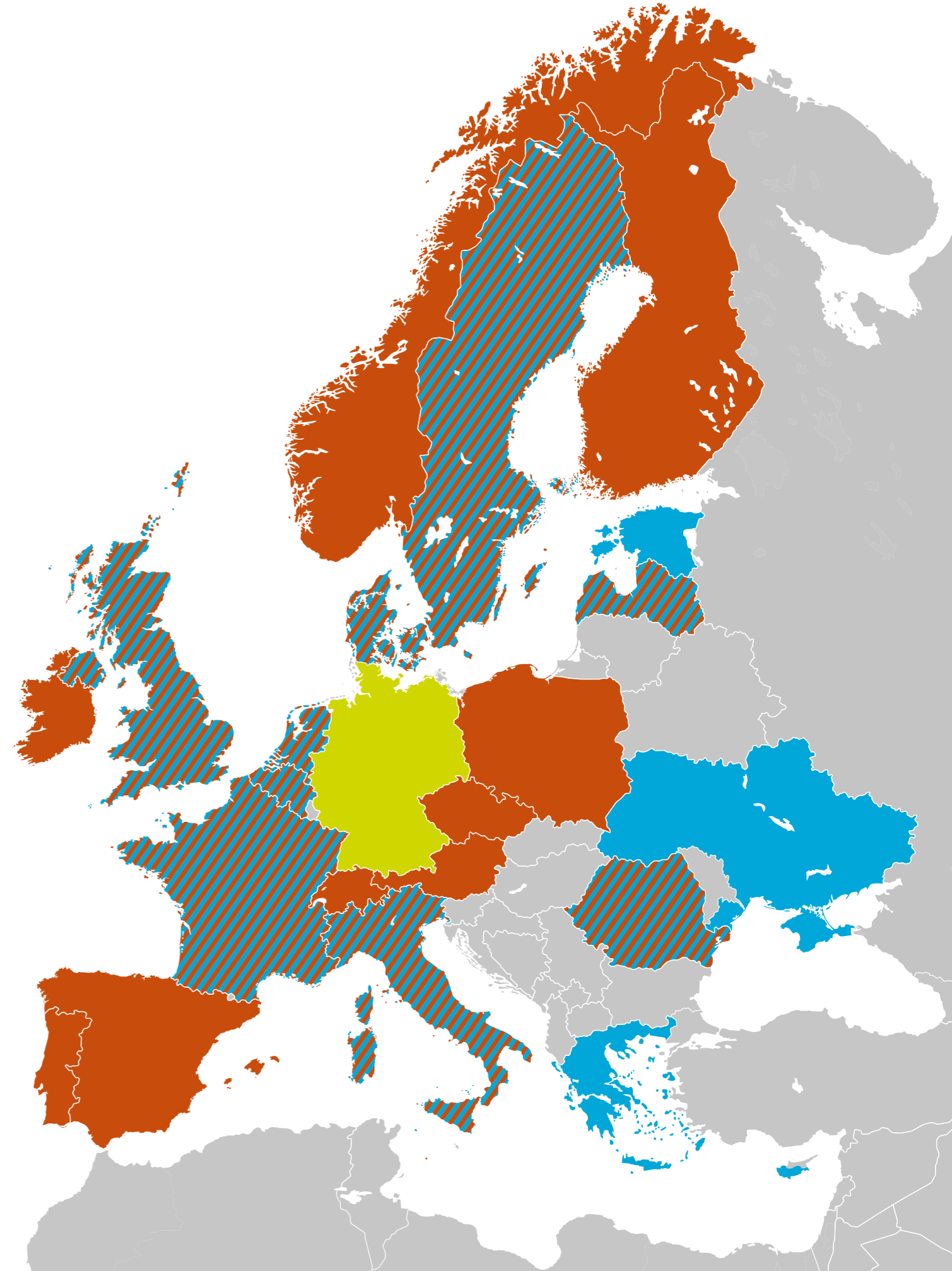
in Europe, European musical authors have created the initiative in 2014, which GVL chose to join. The aim of the petition has been to ensure that creatives and supporters of copyright get involved in the public consultation of the European Commission and actively participate in a rather important debate from a societal point of view.

GVL's international network

We look after our members' interests beyond Germany's borders. In order to do so, we have concluded reciprocal agreements with our sister societies abroad. We can thus avoid additional work and expense for our members if their productions are exploited at international level.



■ reciprocal agreements for performing artists ■ reciprocal agreements for producers ■ reciprocal agreements for performing artists and producers



GVL is one of the world's leading collective management organisations. More than 130,000 artists and over 50,000 labels from all over the world trust in GVL. As representative of its members GVL licenses rights users (e.g. radio and TV broadcasters) for the exploitation of works and passes on the fees directly to its members – without any fees.

For more than 50 years GVL has stood up for the rights of producers and performing artists with competence, commitment and accountability.

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