



GEMA

2016

**ANNUAL REPORT
(ABRIDGED VERSION)**

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PROFIT AND LOSS STATEMENT

PROFIT AND LOSS STATEMENT FOR THE PERIOD 1ST JANUARY TO 31ST DECEMBER

[↗ T.04](#)

in € '000s	Note No.	2016	2015
1. Income	25	1,008,521	875,424
<i>of which</i>			
a) <i>Income from copyright exploitation and royalty claims</i>		1,002,952	875,424
<i>of which income from collection mandates</i>		177,659	175,281
b) <i>Other income**</i>		5,569	0
2. Other operating income**		14,455	15,845
3. Expenses for third party services*	27	-52,375	0
4. Staff costs	26	-77,938	-66,151
<i>of which</i>			
a) <i>Wages and Salaries</i>		-44,711	-51,876
b) <i>Social benefits and expenses for social security plans and support programmes</i>		-33,227	-14,275
<i>of which pension scheme payments</i>		-25,479	-6,134
5. Amortisation of immaterial assets in fixed assets and tangible assets		-4,716	-5,495
6. Other operating expenses*	27	-20,514	-65,567
7. Income from holdings	28	730	985
of which holdings in related companies		602	865
8. Income from securities and bonds		83	225
9. Other interest income and similar income		560	1,363
10. Interest paid and similar expenditure	27	-1,337	0
of which discounting of pension payments		-1,336	0
11. Results from primary business activities		867,469	756,629
12. Extraordinary items		0	-8,301
<i>of which</i>			
a) <i>extraordinary income</i>		0	0
b) <i>extraordinary expenditures</i>		0	-8,301
13. Tax on income and revenue		-1,076	0
14. Result after tax		866,393	748,328
15. Other taxes		-241	-263
16. Allocations to distribution reserve funds	21	-866,152	-748,065
17. Surplus/Deficit for the year		0	0

* 2015: Limited comparability in relation to the previous year due to reallocation from other operating expenses amounting to €47.8m to expenses for third party services.

** 2015: Limited comparability due to the first-time application of the BilRUG [Bilanzrichtlinien-Umsetzungsgesetz-German Act for the implementation of the European Accounting Directive 2013/34/EU] in relation to the previous year due to reallocation from other operating income amounting to €10.0m to other income.

BALANCE AS AT 31ST DECEMBER 2016 (83RD FINANCIAL YEAR)

ASSETS

⇒ T.05

in € '000s		Note No.	Version as at 31/12/2016	As at 31/12/2015
A. Assets	I. Intangible Assets	2/13		
	1. Operating licences, industrial property rights, similar rights and values, and licences in such values and rights		15,129	4,365
	2. Prepayments made		18,616	16,150
	II. Tangible Assets	3/13		
	1. Properties, leasehold rights and buildings, including buildings on sites not owned by GEMA		31,629	32,555
	2. Other assets, office and business equipment		2,537	1,810
	III. Financial assets	4/13		
	1. Shares in related companies		35,853	34,200
	2. Holdings		4,677	4,677
	3. Loans to holdings		7,767	5,710
	4. Fixed asset securities		137,985	2,985
	5. Other loans		560	63
			254,753	102,515
B. Current assets	I. Receivables	5/17		
	1. Membership prepayments		142,449	64,414
	2. Affiliated foreign collecting societies		59,454	58,634
	3. Sound recordings and audiovisual media companies		2,760	9,336
	4. Broadcasters		34,520	33,045
	5. Online providers		33,665	16,857
	6. Music promoters		56,208	43,823
	7. Related companies / holdings		1,634	2,743
	8. Companies with which an investment relation exists		2,025	1,899
	9. Others		10,008	19,927
	II. Marketable securities	6/18	0	10,000
	III. Cash at bank	6/19		
	1. Fixed-term deposits		45,781	192,680
	2. Others		406,441	257,572
	IV. Cash in hand	6	15	14
			794,960	710,944
C. Accruals and deferred income		7	19	204
D. Trustee receivables		19	1,565	1,636
			1,051,297	815,299

LIABILITIES

→ T.06

in € '000s	Note No.	Version as at 31/12/2016	As at 31/12/2015
A. Capital and reserves	20	0	0
B. Reserve funds for the Distribution	21		
I. from performance, broadcasting and communication to the public rights and royalty claims			
1. Domestic income		541,399	384,693
2. Collection mandates		26,586	19,657
3. International income		30,928	49,088
II. From reproduction rights and royalty claims			
1. Domestic income		223,241	164,683
2. Collection mandates		3,436	7,736
3. International income		10,522	10,343
		836,112	636,200
C. Other reserves	8/22		
1. Reserves and accruals for pension plans and similar obligations		40,306	30,901
2. Tax accruals		944	0
3. Other accruals		31,033	21,726
		72,283	52,627
D. Obligations	9/23		
1. From royalties distributed			
To members		34,123	13,261
To affiliated foreign collecting societies		6,146	12,940
2. From advances to music promoters		533	1,125
3. To related companies / holdings		3,270	4,233
4. To companies with which investment relations exist		510	90
5. Others		52,794	49,920
of which from taxes		10,983	528
		97,376	81,569
E. Accruals and deferred income	10/24	43,960	43,267
F. Trustee obligations	19	1,566	1,636
		1,051,297	815,299

FIXED ASSETS 2016

ASSETS: A. FIXED ASSETS

in € '000s	Purchase and Production Costs				As at 31/12/2016
	As at 01/01/2016	Inflows	Transfers	Outflows	
I. Intangible Assets					
1. Operating licences, industrial property rights, similar rights and values, and licences in such values and rights	68,528	224	13,698	-15,237	67,213
2. Prepayments made	16,150	16,163	-13,698	0	18,615
Total	84,678	16,387	0	-15,237	85,828
II. Tangible Assets					
1. Properties, leasehold rights and buildings, including buildings on sites not owned by GEMA	54,741	0	0	0	54,741
2. Other assets, office and business equipment	2,324	1,038	0	-100	3,262
3. Prepayments made and assets under construction	0	0	0	0	0
4. Low-value assets	222	340	0	-222	340
Total	57,287	1,378	0	-322	58,343
III. Financial assets					
1. Shares in related companies	34,200	1,853	0	-200	35,853
2. Holdings	4,677	0	0	0	4,677
3. Loans to holdings	5,710	2,057	0	0	7,767
4. Other loans	63	497	0	0	560
5. Fixed asset securities	2,985	135,000	0	0	137,985
Total	47,635	139,407	0	-200	186,842
Sum total	189,600	157,172	0	-15,759	331,013

→ T.07

	Accumulated Amortisation and Depreciation				Book value		
	As at 01/01/2016	Inflows	Transfers	Outflows	As at 31/12/2016	As at 31/12/2015	As at 31/12/2016
	64,163	3,157	0	-15,236	52,084	4,365	15,129
	0	0	0	0	0	16,150	18,615
	64,163	3,157	0	-15,236	52,084	20,515	33,744
	22,186	926	0	0	23,112	32,555	31,629
	514	293	0	-83	724	1,810	2,538
	0	0	0	0	0	0	0
	222	340	0	-222	340	0	0
	22,922	1,559	0	-305	24,176	34,365	34,167
	0	0	0	0	0	34,200	35,853
	0	0	0	0	0	4,677	4,677
	0	0	0	0	0	5,710	7,767
	0	0	0	0	0	63	560
	0	0	0	0	0	2,985	137,985
	0	0	0	0	0	47,635	186,842
	87,085	4,716	0	-15,541	76,260	102,515	254,753

RESERVE FUNDS FOR THE 2016 DISTRIBUTION

LIABILITIES: B. RESERVE FUNDS FOR THE DISTRIBUTION

[↔ T.08](#)

in € '000s	As at 01/01/2016	Pay-outs 2016 for previous years and advance pay-outs 2016	Allocations 2016	As at 31/12/2016
I. From performance, broadcasting and communication to the public rights and royalty claims				
1. Domestic income	384,693	294,607	451,312	541,399
2. Collection mandates	19,657	115,609	122,538	26,586
3. International income	49,088	74,154	55,994	30,928
				598,913
II. From reproduction rights and royalty claims				
1. Domestic income	164,683	121,482	180,040	223,241
2. Collection mandates	7,736	46,376	42,077	3,436
3. International income	10,343	14,012	14,191	10,522
				237,199
Sum total	636,200	666,240	866,152	836,112

NOTES TO THE ACCOUNTS

for financial year
1st January until 31st December 2016

GOVERNING STATUTORY REGULATIONS

1. The annual financial statements 2016 were drawn up based on the accounting regulations for collective management organisations pursuant to Art. 57 para. 1 clause 1 VGG (Verwertungsgesellschaftengesetz – Act on Collective Management Organisations). Compared to the previous year, this led to a comprehensive application of the accounting regulations of the HGB (Handelsgesetzbuch – Commercial Code) for big incorporated enterprises in its current version including the Bilanzrichtlinie-Umsetzungsgesetz (BilRUG – German Act for the implementation of the European Accounting Directive 2013/34/EU). Due to the aforementioned application, there may be, among others, different ways in which the profit and loss statement is presented compared to the previous year. This applies in particular to other operating expenses and other operating income. Apart from the annual financial statements, consisting of balance, profit and loss statement including the notes to the accounts, a management report and a cash flow statement were set up.

ACCOUNTING AND EVALUATION PRINCIPLES

2. Intangible assets were activated at their acquisition costs and a straight-line depreciation method was applied over their ordinary useful lives.

3. Tangible assets were evaluated at their acquisition or production costs. The loss in value will be captured based on a scheduled straight-line depreciation. Low-value assets

(up to € 410) are written off in full in the year they were acquired.

4. With regards to the financial assets, shares and securities are recognised at their acquisition costs or lower attributable costs, and loans usually at their nominal value.

5. The assessment of receivables was carried out using the nominal amount; possible shortfall risks were taken into consideration by applying an accumulated depreciation. Any potential claims to payment clawbacks vis-a-vis its members (publishers) following the judgement by the Higher Regional Court Berlin are, based on a conservative estimate, set at the level of their relevant amount owed. Receivables from the collection areas reproduction, international income, broadcast and online included conservative estimates of exploitations that had occurred during the financial year, but had not been accrued yet. Such estimates were made on the basis of empirical values based on experience. The revenues were actualized on the date of the performance delivery or exploitation. All transactions with related companies and holdings have been undertaken at normal market conditions.

6. The assessment of marketable securities, as well as cash in hand and cash at bank was performed using the nominal value.

7. Active accruals and deferred income were set up for prepaid amounts as long as they constitute expenditure for a certain period after the financial statement date.

8. The allocation of the remaining reserves takes into account all identifiable risks and uncertain liabilities, and was performed according to the principles of reasonable commercial evaluation.

In the reporting year, reserves and accruals for pension plans were calculated for the first time based on the actuarial principles pursuant to Art. 253 HGB (German Commercial Code) at an actuarial interest rate of 4.00%. The actuarial interest used is the average market interest published by the Deutsche Bundesbank (German Central Bank) for the last ten financial years, at an assumed residual term of 15 years. Based on the application of an average market interest rate pursuant to the provisions of Art. 253 para. 6 HGB for the past seven financial years for an assumed residual life of 15 years, the result would be an actuarial interest rate of 3.22% (€ 8,026k). In the previous year, the assessment of the reserves and accruals for pension plans was based on Art. 6A EStG (German Income Tax Act). The 2005 actuarial tables by Heubeck AG are used [for the calculations]. The readjustments resulting from the application of the current provisions of the HGB is usually spread over 15 years. In financial year 2016, GEMA has already recorded seven fifteenth of this amount as expenses.

The reserves and accruals for staff anniversaries and partial retirement will also be determined on the basis of actuarial principles. The assessment of accruals for anniversary bonuses was based on an assumed interest rate of 3.22% and for partial retirement accruals on 1.67%.

As at the financial statement date, an obligation arose from previous pension commit-

ments of € 14,172k (previous year € 5,096k evaluated according to Art. 6A EStG) that had been not been reported in the balance sheet due to the fact that the option for accrual (i.e. whether or not to recognise the amounts in the balance sheet) had been exercised; furthermore, eight fifteenth of the previous amount not reported in the balance sheet following the application of the current provisions of the HGB, totalling € 7,223k. Furthermore, there are indirect pension commitments as at the financial statement date, 31 December 2016, of € 19,825k (previous year € 64,470k) (via the GEMA Unterstützungskasse Munich).

9. Liabilities were assessed in the repayment amount.

10. Deferred accruals and income were created for income received before the financial statement date as long as the income in question related to a certain period after the financial statement date.

11. Receivables and liabilities in foreign currency were valued using the exchange rate on the settlement day, in other words, using the lower / higher exchange rate on the financial statement date.

12. In order to ascertain deferred taxes due to temporary or quasi-permanent differences between the commercial valuation bases of assets, debts and accruals and deferred income and their tax-related valuation bases

SHARES IN RELATED COMPANIES/HOLDINGS

⇨ T.09

	Share quota	Equity Capital in € '000s	Annual surplus in € '000s
PAECOL i.L. GmbH, Munich*	100.0%	223	-306
ARESA GmbH, Munich**	100.0%	671	288
ZPÜ-Service GmbH, Munich*	100.0%	681	50
IT4IPM GmbH, Munich*	100.0%	2,184	980
GEMA Immobilien GmbH, Munich	100.0%	24	1
GEMA Immobilienverwaltung wirtschaftlicher Verein & Co. KG, Munich*	99.9%	32,660	602
GEMA Unterstützungskasse GmbH, Munich*	100.0%	25	0

* The annual financial statements are only available provisionally so far.

** Figures for financial year 2015

SHARES IN RELATED COMPANIES/HOLDINGS

→ T.10

	Share quota	Pro-rata Equity Capital in € '000s	Pro-rata Annual Surplus in € '000s
SOLAR MRM GmbH, Munich*	50%	231	42
iSYS Software GmbH, Munich**	24.9%	770	216
International Copyright Enterprise Services AB, Stockholm, Sweden*	33.33%	1,046	-55
International Copyright Enterprise Services Ltd., London, Great Britain*	33.33%	-1,749	-468

* The annual financial statements are only available provisionally so far.

** Figures for financial year 2015

or due to tax loss carry-forwards, the amounts of the tax burden and tax relief shall be valued at the company-specific tax rates at the time of the reduction of differences and shall not be discounted. The activation of latent taxes shall not be made in the exercise of the pertaining option to recognise them for the purposes of the balance sheet.

DETAILS ON BALANCE SHEET ITEMS

13. The development of individual items relating to fixed assets is reflecting the depreciation during the financial year and is shown in the schedule of movements in fixed assets. Major activations into intangible assets of the financial year are related to SAP and Trinity systems.

14. Shares in related companies are as follows: see → T.09

In the previous year, 2015, GEMA had transferred a part of its recognised and unrecognised pension commitments (the so-called previous commitments) into a newly founded subsidiary, the GEMA Unterstützungskasse GmbH.

15. Shares in holdings are as follows: see → T.10

Since the previous year, together with PRS for Music, London, Great Britain, and Svenska Tonsättare Internationella Musikbyrå (STIM), Stockholm, Sweden, GEMA has held shares in

the joint shareholding International Copyright Enterprise Services AB and International Copyright Enterprise Services Ltd.

GEMA is furthermore an associate of the Zentralstelle für private Überspielungsrechte GbR, Munich (Central Organisation for Private Copying Rights).

16. GEMA usually holds fixed asset securities, € 137,985k (previous year € 2,985k) through to maturity. The increase is a result of a more sustainable and long-term spread of the financial resources in longer term bonds and securities in the investment grade sector.

17. Receivables fall due within a year. The increase in receivables from members is a result of the financial reporting of potential entitlements to claw back payments from its members (publishers) due to the judgement of the Higher Regional Court Berlin. Receivables from related companies amounting to € 1,634k (previous year € 2,743k) mainly consist of receivables from GEMA Immobilienverwaltung wirtschaftlicher Verein & Co. KG (€ 885k; previous year € 983k) and from ZPÜ-Service GmbH (€ 340k; previous year € 299k).

Receivables from companies with whom GEMA entertains investment relations amounting to € 2,025k (previous year € 1,898k) consist of receivables from SOLAR Music Rights Management Ltd with € 1,882k (previous year € 0k) and from SOLAR MRM GmbH with € 202k (previous year € 1,692k).

Any other receivables amounting to € 10,008k (previous year € 19,927k), mainly stem from non-deductible input taxes as well as receivables from collection mandates

18. Holdings in marketable securities amounting to € 10,000k consisted exclusively of fixed interest securities, which served as a temporary investment vehicle for cash reserves.

19. The remaining cash at bank amounting to € 406,441k (previous year € 257,572k) relates to current giro account balances as well as overnight accounts balances. Trustee receivables, or trustee obligations, amounted to € 1,566k (previous year € 1,636k); they include security deposits from the producers of sound recordings and relate to transitory items from the licensing fees that GEMA collects and administers as a trustee until the distribution to the beneficiaries.

20. In terms of accounting, GEMA does not have equity capital or reserve assets. All proceeds are distributed to those eligible for remuneration (members, and other beneficiaries and rights owners) after expenditures have been defrayed.

21. A total of € 836,112k (previous year € 636,200k) is available for distribution. The amount allocated for 2016 is € 866,152k (previous year € 748,065k). Based on the judgement by the Higher Regional Court Berlin, GEMA has accounted for potential entitlements to claw back payments from its members (publishers) under the balance item receivables from members. The arising liabilities towards its authors (composers and lyricists) are accounted for with 7.8% in the distribution reserves and accruals.

The development of reserve funds for the distribution is shown in the accruals and provisions schedule.

22. Other reserves totalling € 72,283k (previous year € 52,627k) primarily consist of reserves for pensions and similar obligations

(€ 40,306k; previous year € 30,901k), for monetary compensations of the pensionaries of the GEMA Unterstützungskasse [pension fund] (€ 14,810k; previous year € 0k), staffing (€ 6,730k; previous year € 12,333k), for legal expenses (€ 166k; previous year € 408k) as well as for the costs relating to the annual financial statements and tax advice (€ 310k; previous year € 194k). Reserves and accruals for income adjustments were made for the sectors online (€ 2,069k; previous year € 1,861k), broadcast (€ 1,260k; previous year € 4,096k) and sound and audiovisual recordings (€ 1,600k; previous year € 1,950k).

23. There are no liabilities with a residual maturity in excess of one year. Any other liabilities mainly comprise liabilities from the Gesellschaft zur Verwertung von Leistungsschutzrechten mbH, Berlin (GVL), Verwertungsgesellschaft Wort, Munich (VG WORT), Gesellschaft zur Verwertung der Urheber- und Leistungsschutzrechte von Medienunternehmen mbH, Berlin (VG Media), the Zentralstelle für Videovermietung, Munich (ZWF), and VG Musikedition, Kassel, from collection mandates amounting to € 21,645k (previous year € 30,725k) as well as from financial authorities for payment transactions amounting to € 10,983k (previous year € 528k).

24. Deferred income included accrued membership fees, accrued proceeds in connection with regional offices, and accrued online revenues.

DETAILS ON ITEMS OF THE PROFIT AND LOSS STATEMENT

25. Income from copyright exploitation and royalty claims in the financial year were € 1,002,952k (previous year € 875,424k). Their composition is as follows: see [T.11](#)

Income in the reproduction and distribution followed a slight downward trend due to the general market development in the sound recording sector. The strong growth of

DETAILS ON PROFIT AND LOSS STATEMENT ITEMS

→ T.11

Rights category	Type of usage	2016 in € '000s	2015 in € '000s	Difference in € '000s
Reproduction	Sound recordings	52,765.1	58,139.2	- 5,374.1
	Audiovisual recordings	13,869.3	13,721.3	148.0
	Total	66,634.4	71,860.5	- 5,226.1
Performance	Music events	111,601.0	116,580.3	- 4,979.3
Online	Internet broadcast	449.1	612.8	- 163.7
	Download	13,280.1	26,940.8	- 13,660.7
	Streaming	70,523.4	15,086.2	55,437.2
	Total	84,252.6	42,639.8	41,612.8
Broadcast	Radio	48,915.7	54,525.5	- 5,609.8
	TV	171,537.5	162,967.5	8,570.0
	Radio and TV	253.0	0.0	253.0
	Cable re-transmission	13,807.2	12,488.4	1,318.8
	Total	234,513.4	229,981.4	4,532.0
Communication to the public	mechanical communication	145,078.0	138,921.3	6,156.7
Presentation	Presentation	10,125.4	10,613.8	- 488.4
Statutory royalty claims	of which Art. 27 para. 1 UrhG	1,532.8	1,953.1	- 420.3
	of which Art. 27 para. 2 UrhG	1,251.9	2,125.4	- 873.5
	of which Art. 52a para. 4	124.8	49.1	75.7
	of which Art. 54 para. 1 UrhG	96,478.7	14,075.4	82,403.3
	Total	99,388.2	18,203.0	81,185.2
International Income	Performance	46,960.0	47,129.5	- 169.5
	Reproduction	14,324.2	13,203.7	1,120.5
	Cable re-transmission	12,186.1	11,009.0	1,177.1
	Total	73,470.3	71,342.2	2,128.1
Collection mandates	Performance	134,795.1	130,376.0	4,419.1
	Reproduction	43,093.9	44,905.3	- 1,811.4
	Total	177,889.0	175,281.3	2,607.7
Total		1,002,952.3	875,423.6	127,528.7

income in the online sector of streaming is a result of the agreement with YouTube for the years 2009 to 2016 as well as the generally very positive development in the streaming sector. The broadcast sector witnessed

constant growth. Statutory royalty claims revenues were significantly influenced by the pay-outs from the Zentralstelle für private Vervielfältigungsrechte (ZPÜ) for products such as smartphones, tablets and PC.

As part of exercising its collection mandate, GEMA received income on behalf of other collecting societies (such as GVL, VG WORT) and forwarded the respective revenue after deduction of a commission to the respective collective management organisations.

26. Staff costs amounted to €77,938k (previous year €66,151k). The expenses contained therein for pension scheme payments amount to €25,479k (previous year €6,134k). The increase is a result from special measures of GEMA for a better and more balanced allocation of its pension liabilities. To this end, GEMA has offered monetary compensation to a part of the pensionaries during the financial year. The resulting expenditure for 2016 amounts to €14,810k. The number of permanent employees decreased from 826 as at 31st December 2015 to 771 as at 31st December 2016.

The average number of employees during the 1st quarter 2016 was 862 staff, 847 staff for the 2nd quarter 2016, 836 staff for the

3rd quarter 2016 and 845 staff for the 4th quarter 2016.

27. Expenses for third party services, other operating expenses and other interest and similar expenditure are made up as follows: see [↪ T.12](#)

In context with the Bilanzrichtlinie-Umsetzungsgesetz (BilRUG), there are consequently shifts between the financial reporting year and the previous year between the expenditure for third party services and any other operational expenses.

IT services are nearly exclusively provided by the subsidiary company IT4IPM GmbH. Ancillary costs from collection activities consisted of costs for monitoring of licence registrations of €8,485k (previous year €7,981k) as well as legal costs of €3,814k (previous year €4,082k).

Other expenditure includes €1,600k, for the transfer of staff members of the previous

OTHER OPERATING EXPENSES

[↪ T.12](#)

in € '000s	2016	2015
Expenses for third party services		
IT services	26,385	0
Collection activities' costs	12,299	0
Communication expenditure and marketing measures	10,343	0
Other services	3,348	0
	52,375	0
Other operating expenses		
Other administration costs	5,235	7,742
Fees for consultancy and expert opinions	6,606	5,688
Buildings and room charges	3,944	4,020
IT services	0	26,813
Collection activities' costs	0	12,064
Communication expenditure and marketing measures	0	5,802
Miscellaneous	4,729	3,438
	20,514	65,567
Interest payable	1,337	0
	74,226	65,567

regional office Dortmund into a transfer company.

The increase in interest expenditure (€1,337k) results from the changed financial reporting of the pension payments.

28. Income from holdings primarily relate to the profit realisation for the same period from the holdings in the GEMA Immobilienverwaltung wirtschaftlicher Verein & Co. KG, Munich, of €602k (previous year €865k).

DETAILS ON THE CASHFLOW STATEMENT

Cash and cash equivalents increased by €1,971k to €452,237k in the financial year, compared to the previous year. The main changes arose in the significant increase of the cash flow from current business activities based on the one-off financial items YouTube and ZPÜ, as well as the influence on the cash flow arising from capital spending activities based on the changed investment in long-term financial assets. For details, we refer to the attached cash flow statement: see [➔T.13](#)

REPORT ON EVENTS AFTER THE REPORTING PERIOD

Events that would have been of specific significance for the assessment of the GEMA's asset, finance and revenue situation have not occurred between the closure of the financial year and the Board meeting where the annual financial statements were prepared.

SUPPLEMENTARY INFORMATION

29. Contingencies as defined by Article 251 of the HGB result from providing collaterals for liabilities amounting to €903k. Furthermore, there are miscellaneous financial liabilities arising from payment obligations from long-term rental contracts amounting to €10,681k. Premature demands in this regard are not anticipated.

30. The total fee for the independent auditing firm in financial year 2016 came to €464k, of which €198k was charged for auditing services, €124k for tax consultancy and €142k for other services.

31. The members of the Managing Committee in the reporting year were Dr. Harald Heker (Chairman), Lorenzo Colombini and Georg Oeller. Their salaries amounted in 2016 to €623k for Dr. Harald Heker; €338k for Lorenzo Colombini, and €369k for Georg Oeller. Moreover, there were liabilities arising from pension commitments as well as other social benefits of the active members of the Managing Committee, amounting to €744k and the previous members of the Managing Committee amounting to €714k.

32. The Supervisory Board consists of 15 members in accordance with Article 13(1) of GEMA's Articles of Association. Two representatives can be elected for every professional category in accordance with Article 13(1), second sentence, of the Articles of Association.

The Supervisory Board thus comprises the following members:

Composers	Prof. Dr. Enjott Schneider	Chairman
	Jörg Evers	
	Micki Meuser	
	Jochen Schmidt-Hambrock	
	Dr. Charlotte Seither	
	Dr. Ralf Weigand	
	Hartmut Westphal Alexander Zuckowski	Deputy Deputy
Lyricists	Frank Dostal	Deputy Chairman
	Burkhard Brozat	
	Frank Ramond	
	Stefan Waggershausen	Deputy
	Tobias Künzel	Deputy
	Rudolf Müssig	
Publishers	Karl-Heinz Klemppow	Deputy Chairman
	Prof. Dr. Rolf Budde	
	Hans-Peter Malten	
	Dagmar Sikorski	
	Patrick Strauch	Deputy
	Jörg Fukking	Deputy
	Winfried Jacobs	

The members of the Supervisory Board receive expense allowances only.
During financial year 2016, this amounted to a total of € 333k (previous year € 469k).

Munich, 8th March 2017



Dr. Harald Heker



Lorenzo Colombini



Georg Oeller

The Managing Committee

CASH FLOW STATEMENT

CASH FLOW STATEMENT

[↗ T.13](#)

in € '000s	2016	2015
Annual results (including profit shares of minority associates) before extraordinary items	0	0
Amortisation / Appreciations in value of fixed asset items	4,716	5,495
Increase / decrease of reserves and accruals	19,657	- 51,632
Increase / decrease of distribution reserves	199,912	6,562
Profit / loss from the outflows of fixed asset items	0	0
Increase / decrease of stock, claims from deliveries and services as well as other assets which are not allocable to investment or financial activities	- 81,859	- 4,480
Increase / decrease of liabilities from deliveries and services as well as other liabilities which are not allocable to investment or financial activities	16,499	324
Receipts and payments from extraordinary items	0	- 8,300
Cashflow from current business activities	158,925	- 52,030
Receipts from outflows of tangible asset items / immaterial assets	17	284
Payments for investments for tangible assets / immaterial assets	- 17,765	- 9,982
Receipts from outflows of financial asset items	200	10,450
Payments for investments into the financial assets	- 139,406	- 9,741
Receipts and payments from the purchase and sales of consolidated companies and other business units	0	0
Cashflow from investment activities	- 156,954	- 8,989
Cashflow from finance activities	0	0
Cash changes of the financial resources	1,971	- 61,019
Financial resources at the beginning of the period	450,267	511,286
Financial resources at the end of the period	452,237	450,267

A. GENERAL CONDITIONS AND BUSINESS

1. OVERALL ECONOMIC DEVELOPMENT

According to a report by the Federal Ministry for Economic Affairs and Energy, global economic growth in 2016 was at its slowest pace since 2009. Overall, the OECD (Organisation for Economic Co-operation and Development) anticipates a cautious upwards trend of the global economy. It expects growth of the global GDP in 2017 to 3.3% (2016: 2.9%). In the USA, growth has taken a more vigorous upturn in the 2nd semester 2016, whereas growth in the Eurozone and Japan, was more moderate. The economic performance within the Eurozone has increased in 2016 by 1.6% – analysts forecast a slower growth for 2017 due to Brexit. An increase in commodity pricing are expected to have a positive impact for Russia and Brazil – a positive economic effect is expected to take place in those two emerging economies.

In line with the annual economic report 2017 by the Federal Ministry for Economic Affairs and Energy, the German economy is in a very good state, which is corroborated by the increase of the GDP in 2016 by 1.9% – the strongest growth since 2011.

Throughout 2016, the labour market exhibited an extremely continued positive trend. The number of employed persons continued to rise and a new peak level of 43.8m employed persons could be recorded (previous year 43.5m). Unemployment rates stood at 5.8% (previous year 6.0%).

Throughout 2016, the price environment developed at a moderate rate. Inflation rates stood at an average of 0.5% (previous year

0.3%). At year end, the inflation rate rose to 1.7% in December, due to the development of energy pricing.

The recovery of credit development in the Eurozone continues. The ECB (European Central Bank) continues to follow an expansionist monetary policy. Since March 2016, the interest rate for main refinancing operations has stayed at 0.0%, while the deposit rate has been negative at –0.40% (previous year –0.3%).

2. MUSIC INDUSTRY DEVELOPMENTS

As a collective management organisation for musical works, GEMA depends on the overall trends and developments within the music industry.

According to the Bundesverband der Musikindustrie (Federal Association of the Music Industry), an overall increase in revenues across all sectors (CDs, vinyl, downloads and music streaming) of 2.4% could be realised in 2016. The streaming sector continued its very positive trend during the financial year. Compared to the previous year, an increase of 73.1% could be recorded, reflecting a market share of 24.3%. This strong growth more than balanced out the decline in the categories physical sound recordings (-9.6%) and music downloads (-19.4%).

2016 emphasised the exceptional nature of the German marketplace once more: While business from physical sales had rapidly fallen in the majority of all other countries in the space of only a few years, CDs and vinyl

records still made up approx. 62% of German sales last year. Particularly vinyl turnover grew particularly with 41.0%.

The level of music use on radio and TV remains high. To retain the appeal of modern TV and radio programmes, it is essential that music continues to be used commercially. Music use in the live music sector also continued its development at a very stable rate.

3. LEGAL CONDITIONS

On 01 June 2016, a comprehensive new governance of the administration right entered into force by way of the Act on Collective Management Organisations (CMO Act, VGG). The Act serves the implementation of Directive 2014/26/EU of the European Parliament and the Council dated 26 February 2014 on collective rights management of copyright and neighbouring rights and multi-territorial licensing of rights in musical works for online use in the common market. With the CMO Act entering into force, the Urheberrechtswahrnehmungsgesetz (Copyright Administration Act, UrhWG) and the Urheberrechtsschiedsstellenverordnung (Copyright Arbitration Board Regulations, UrhSchiedsV) were replaced.

Even though the VGG (CMO Act) includes many new provisions, the basic principles of the German Administration Laws were maintained. They continue to form the core framework for the activities of collective management organisations. Apart from that, the CMO Act contains provisions for dependent and independent administration facilities – newly introduced categories of rights management organisations. In the special section, the granting of multi-territorial licensing of rights in musical works for online use, the CMO Act establishes special requirements of rights management organisations and grants – if adhered to – additional

flexibility in order to support the intended competition between European collective management organisations and promote international cooperation. Another new feature is the introduction of a faster and more efficient process to determine the levies on devices and media storage products.

Further requirements that have to be implemented as mandatory provisions are options to participate in the General Assembly (e-voting and representation by proxy) and additional duties relating to transparency and documentation.

The necessary adaptations to implement the CMO Act into the Statutes and internal rules have already been passed by resolution in the General Assembly 2016, the implementation in administrative practice is nearly complete and running to schedule. The General Assembly 2017 shall be held for the first time as an (additional) electronic GA.

At European level, the EU Commission presented several draft bills on 14 September 2016 in the context of its strategy to modernise copyright for a digital common market with the declared goal to promote the cultural diversity in Europe and the availability of contents via the internet, and to establish clearer rules for all internet players. That way, a fairer and more sustainable market shall be created for all participants, providing more choice and easier access to contents, on the internet and at cross-border level. These proposals are based upon the “Impact assessment on the modernisation of EU copyright rules”, published on the same day, where the issues which call for the most urgent need to act are raised. The focus is on the Commission’s proposal for a Directive on Copyright in the Digital Single Market. In this document, the issues relating to the concept of the ‘transfer of value’ in terms of the responsibility and liability of online services in the context of the use of protected contents are raised.

Further topics are regulation in terms of limitations and exceptions, out of stock works, the participation of publishers in statutory equalisation claims, the availability of audiovisual contents on video on demand platforms and a fair remuneration in copyright contract law. Another proposal of the

Commission for a directive deals with the management of copyright and neighbouring rights in relation to specific online transmissions of broadcasters and the re-transmission of TV and radio programmes. It can be expected that the proposed legislation will be the subject of intensive debates.

B. INCOME, ASSETS AND FINANCE SITUATION

1. FINANCIAL PERFORMANCE OF GEMA

GEMA had a very successful financial year in 2016. Total income exceeded the one-billion-Euro-mark for the first time with € 1,024,350k (previous year € 893,842k). The increase mainly results from the revenue growth in the online sector as well as special payments from ZPÜ.

Operating expenses (without strategic measures for bolstering the sustainability of GEMA's long-term competitiveness) exceeded the previous year's level of € 118,295k by € 10,616k. The actual operating cost rate could be improved from 13.2% to 12.6% compared to the previous year. Total expenditure including strategic measures amounted to € 156,198k. GEMA's administration cost rate including all expenses reached 15.4% (previous year 16.3%).

Due to its positive financial performance, GEMA decided in 2016 to undertake special strategic measures. For a better and more balanced allocation of its pension liabilities, GEMA has submitted monetary compensation offers to a part of its pensionaries of

the GEMA pension fund during the financial year.

2. STAFF

At the end of its financial year 2016, GEMA had 836 employees (previous year 891 employees). The decrease results from the closure of the regional office in Dortmund. Staff fluctuation has not changed significantly over the last three years.

3. DETAILS ON THE CASHFLOW STATEMENT

Cash and cash equivalents increased by € 1,971k to € 452,237k in the financial year, compared to the previous year. Main changes arose in the significant increase of cash flow from current business activities based on the one-off financial items YouTube and ZPÜ, as well as the influence on the cash flow arising from capital spending activities based on the changed investment in long-term financial assets. For details, we refer to the attached cash flow statement.

4. REVENUE SITUATION

Total income, split into the relevant income and collection categories, was as follows: see [↔ T.14](#)

Revenue from the management of copyright exploitation rights and remuneration entitlements amounted to €1,002,952k in reporting year 2016. The increase of the revenue by €127,528k compared to the previous year can be mainly allocated to an increase of on-line revenue following the agreement with YouTube for the years 2009 to 2016 as well as a significant increase of the income from royalty claims and entitlements.

This results from the agreement concluded by the Zentralstelle für private Vervielfältigungsrechte (ZPÜ) with the Associations of smartphone and tablets for the years 2012-2016.

In the reproduction sector, however, there was a market-related decline in earnings. Other sectors (regional office collections, broadcast collections and international income) reflected slight increases in income by way of adaptations of tariffs and higher pay-outs of the foreign partner societies in the performing rights sector.

TOTAL INCOME BY COLLECTION CATEGORIES

[↔ T.14](#)

in € '000s	2016			Difference
	Income*	Others Income	Total	
Regional offices	359,028	11,051	370,079	4,562
Reproduction	104,855	9	104,864	-5,482
International income	73,511	0	73,511	2,169
Broadcasting	286,245	0	286,245	5,615
Online	81,457	160	81,617	41,202
Royalty claims	97,856	0	97,856	81,606
Other collection categories	0	10,178	10,178	835
Amounts per categories	1,002,952	21,398	1,024,350	130,508

* Income from copyright exploitation and royalty claims

in € '000s	2015		
	Income*	Others Income	Total
Regional offices	356,689	8,828	365,517
Reproduction	110,237	108	110,346
International income	71,342	0	71,342
Broadcasting	280,630	0	280,630
Online	40,276	140	40,415
Royalty claims	16,250	0	16,250
Other collection categories	0	9,343	9,343
Amounts per categories	857,424	18,419	893,842

* Income from copyright exploitation and royalty claims

Other income was subject to a slight upward trend compared to the previous year. It mainly consists of the cost-replacement component of damages, service income as well as profit distributions of subsidiaries.

GEMA's total expenditure and cost rates for financial year 2016 were: see [↔ T.15](#)

To increase its long-term competitiveness, GEMA has increased the deployment of strategic measures from financial year 2012 onwards; These affect, apart from measures for a new IT infrastructure design (€ 2,404k), strategic measures in particular, namely in the context with international cooperations with other collective management organisations (€ 2,546k), measures to redesign the regional offices (€ 4,808k) as well as the additional extraordinary measure to provide a more balanced allocation of its pension liabilities (€ 14,810k).

In the past two years, staff and material costs including the strategic measures were as follows: see [↔ T.16](#)

Staff costs 2016 include pension payments amounting to € 9,729k and expenditure for monetary compensation offers for pensionaries of the GEMA pension fund amounting to € 14,810k. Material costs mainly comprise

IT services at € 26,385k, ancillary costs from collection activities at € 12,299k and amortisations at € 4,716k.

5. ASSETS

The assets of the society mainly consists of current assets amounting to € 794,960k resp. 76% (previous year € 710,944k resp. 87%); the majority relates to liquid assets € 452,237k; previous year € 460,266k).

Fixed assets in the reporting year amounted to € 254,753k (previous year € 102,515k). The increase is a result of a more sustainable spread of financial resources, including longer term bonds and securities.

Intangible fixed assets (€ 33,745k; previous year € 20,515k) reflect software development activities in the software sector of IT4IPM on behalf of GEMA. The most important software capitalisations related to the distribution system (Trinity) as well as SAP.

Shares in the GEMA Immobilienverwaltung wirtschaftlicher Verein & Co. KG, Munich, amounting to € 32,700k and the newly acquired stakes in the International Enterprise Services AB of € 3,000k made up the majority of GEMA's fixed assets. Another expenditure

TOTAL EXPENDITURE AND COST RATES

[↔ T.15](#)

	Income in € '000s	Expenditure in € '000s	Cost rate in %
Without strategic measures	1,024,350	128,912	12.6
With strategic measures	1,024,350	158,198	15.4

STAFF AND MATERIAL COSTS

[↔ T.16](#)

in € '000s	2016	2015	Difference
Staff costs	77,938	66,151	11,787
Material costs	80,260	71,326	8,934
Extraordinary expenditure	0	8,300	-8,300
Total expenditure	158,198	145,777	12,421

included the acquisition of a stake in the International Copyright Enterprise Services Limited amounting to € 142k during the previous year. In addition to the above, loans of € 7,767k were granted to the two aforementioned ICE joint enterprises.

By capitalising on the synergies and strengths of GEMA, PRS for Music, STIM and ICE, GEMA continues to prepare for the dynamic market developments and the resulting changes in music user behaviour. Members benefit from simplified yet more efficient rights management and online data processing via a central European database in future.

The level of receivables increased compared to the previous year (€ 342,723k; previous year € 250,678k). This increase was mainly due to a rise in receivables for the categories members, foreign societies and music promoters.

GEMA's financial position is characterised by reserves for the distribution of € 836,112k (previous year € 636,200k). Liquidity planning as a major part of GEMA's entire financial planning is based on liquidity streams which are mainly made up of expected licensing income, expenditure for staff and material

costs and pay-outs to members and sister societies. GEMA's proactive financial controls guarantee that surplus liquidity is invested at prevailing market rates and conditions and that short-term liquidity needs can be satisfied by GEMA's own resources.

Based on the judgement by the Higher Regional Court Berlin on the participation of publishers in the pay-outs, GEMA has recorded potential claims for clawbacks from its members (publishers) under the balance item receivables from members in its annual financial statements. The liabilities arising vis-a-vis authors (composers and lyricists) amount to 7.8% of the distribution reserves and accruals.

Other reserves mostly consist of pension reserves amounting to € 40,306k (previous year € 30,901k), and other reserves and accruals of € 31,033k (previous year € 21,726k).

Liabilities increased by € 15,807k to € 97,376k compared to the previous year. The increase mainly results from the increase of the liabilities from members and other liabilities.

C. REPORT ON EVENTS AFTER THE REPORTING PERIOD

No events that would have been of special significance for the evaluation of GEMA's assets, finances and revenue situation occurred

after closure of the financial year or prior to the compilation of the annual financial statements.

D. COMPLIANCE

GEMA has introduced a comprehensive compliance management system as early as at the beginning of 2015. Compliance means for GEMA above all to adhere to laws, regulations and directives and to the self-imposed internal rules by GEMA. Against this background, the aim of compliance management is particularly to create structures and processes which safeguard a behaviour of governing body members and staff members that is compliant with laws and regulations in their daily work. The emphasis of the activities is on recognising and avoiding conflicts of interest and prevent corruption. At the same time, damage of reputational and economic character, which can arise from rule breaches, shall be prevented.

Compliance at GEMA does, however, extend beyond legal issues. Responsible acting, moral and ethical integrity, fairness and transpar-

ency when dealing with members, licensees and business partners also count among the compliance programme of GEMA. Taking into account societal principles and moral concepts for entrepreneurial actions and the taking on of corporate social responsibility are self-evident to GEMA.

The compliance management system is coordinated by the Compliance Committee, led by the Chief Compliance Officer as well as a decentralised compliance officer in individual divisions and office locations. In conjunction with the risk management and internal auditing, annual detailed risk assessments are undertaken in relation to compliance, countermeasures being taken and reported to the Managing Committee as well as the Finance Committee of the Supervisory Board. Furthermore, internal rules are set up and training on compliance relevant subjects is provided.

E. OPPORTUNITIES AND RISK REPORT

1. RISK MANAGEMENT

The primary objective of GEMA's risk management is not to avoid all risks, but to manage risks in a controlled and effective manner in the company's day-to-day business. To this end, significant risks are identified bi-annually and summarised in a report for the Managing Committee. In addition, there is an annual

reporting on all risks to the Supervisory Board. During the financial year, there have been no existential risks.

Another objective of risk management is to raise risk awareness among all of GEMA's employees and to thus ensure long-term success for the company.

2. RISK REPORT

Essential opportunities and risks which might have a considerable impact on GEMA's assets, finances and revenue situation, are shown in the following risk report. It comprises four risk areas: Finances, business processes, industry sectors and the legal environment.

2.1 FINANCES

Changes in interest rates imply both opportunities and risks for GEMA. Opportunities present themselves when interest rates rise and lead to a higher interest revenue in the future. Risks consist of sinking interest rates resulting in a lower interest revenue in the future. In the case of rising interest rates, the market value of fixed interest investment portfolio decreases. Such risks can be limited by applying a long-term investment strategy and by holding on to investments until their final maturity.

Further risks for GEMA in the financial area originate from a potential shortfall in issuers of bonds and securities. GEMA endeavours to keep risks as low as possible by following a conservative investment strategy consisting almost exclusively of gilt-edged financial investments, applying a systematic selection process, distributing risks, and continually monitoring the issuers. Due to the high level of market uncertainty resulting from the ongoing European debt crisis as well as the general risks arising from this situation for the European common currency, the Euro, and the general banking sector, risk assessments generally remain high.

Furthermore, there is a risk for GEMA in the event of a shortfall of receivables, should customers no longer be able to meet their financial obligations when they are due. In order to effectively control risks involved with open receivables, GEMA has introduced a monitoring process. Apart from an intensive debt collection process, larger financial items are continuously monitored.

In addition, there is the risk that investments made during the previous year 2015 and the reporting year 2016 into the ICE joint enterprises might not realise the targeted objectives. Finally, there is an exchange rate risk to some extent related to the loans granted to these enterprises which could lead to a depreciation of the loans in the event of a deteriorating exchange rate.

2.2 BUSINESS PROCESSES

GEMA considers the optimisation and control of business processes as a central and ongoing task. The risk is minimised by means of internal controls (e.g. dual control principle), as well as by a defined approval process. In addition, the internal control system (IKS) of the respective business processes is tested by an independent internal review on a regular basis.

GEMA's business processes are, just like every modern service company, influenced and supported by information technology to a great extent. Even though there are resulting gains in efficiency, risks do arise: Due to a systems malfunction and the associated adverse effects on business processes, risks arise from unauthorised access, or the loss or deletion/manipulation of company information. Using modern hardware and software technologies ensures uninterrupted data availability and protection from unauthorised access. Regular data backups also decrease the risk of a major data loss. Potential threats arising from the internet to the operational reliability of the company's systems is countered by deploying security measures (firewalls) using state-of-the-art technology. Since financial year 2012, GEMA has been increasingly investing in a redesign of its existing IT infrastructure in order to safeguard its long-term competitiveness.

2.3 INDUSTRY SECTORS

As a collective management organisation, GEMA depends on the overall trends and developments within the music sector. In addition to the developments in the sound recording and online markets, these include the developments of live music used for commercial purposes. Risks also arise particularly from a further slow-down in the sound recordings market and the fact that the online market has not offset this decline in a sustainable manner. GEMA may, however, also see opportunities arise by pushing back online piracy and a subsequent sustainable increase of the income resulting thereof.

Opportunities and risks for GEMA can result from new publishing repertoires being transferred or existing publishing repertoires being withdrawn. Being one of Europe's largest collecting societies and taking its economic strength into consideration, GEMA regards the above scenario fundamentally as an opportunity to acquire new and interesting repertoire.

Furthermore, GEMA entered into a Joint Venture (ICE), together with the British PRS for Music and the Swedish STIM during previous year, 2015. The international joint venture is intended to provide a simpler and more efficient framework for music rights management by the three participating collecting societies in the online sector, in order to facilitate the licensing of musical works and to ensure rights owners receive a faster and more precise distribution of their royalties. The joint venture permits a pooled licensing of a hitherto fragmented rights management and thus reduces the bureaucratic obstacles and entry barriers into the market for online usage.

2.4 LEGAL ENVIRONMENT

The legal environment poses enduring risks and creates potential opportunities at the same time. Apart from changes to the law passed by legislature, risks emerge from ground breaking court decisions. GEMA actively monitors any relevant developments and is constantly in touch with the responsible governmental offices in order to guarantee an optimum consideration of its interests. The most important proceedings before European Courts, the German Federal Court of Justice and German regional courts are covered in the following section.

2.4.1 EUROPEAN COURT OF JUSTICE (ECJ)

With its judgement dated 31 May 2016, Az C 177/15, the ECJ decided that the broadcast of TV programmes in waiting and training rooms for patients in a rehabilitation centre is considered to be a communication to the public and therefore is subject to paying copyright remuneration.

A legal dispute before the Cologne County Court also formed a basis for the decision by the ECJ. In two waiting rooms and one training room of the operator, TV sets were installed for the use by patients. The operator refused to pay copyright remuneration for the music use to GEMA. GEMA subsequently asked for damages. Contrary to the view of the operator, GEMA considered these usages to be public. The County Court in Cologne shared the legal opinion of GEMA, but saw itself prevented from following through on a decision based on a prior jurisprudence of the ECJ and thus presented the proceedings to the ECJ.

The ECJ judged the legal situation similarly to a restaurant, a hotel or a spa venue, where the operators install radio or TV sets. It also based its judgement on the fact that the dissemination of works in this specific case served a profit-making purpose where the user can obtain an economic advantage.

2.4.2 GERMAN FEDERAL COURT OF JUSTICE (BGH)

The German Federal Court of Justice decreed, in the matter Vogel ./ VG Wort, with its decision dated 21 April 2016 (Az. I ZR 198/13) that VG Wort was not entitled to pay out for statutory remuneration entitlements to publishers as these would originally be due to the authors. Following the decision of the Federal Court of Justice, the Supervisory Board of GEMA decided in a special meeting on 12 May 2016 to no longer pay out to publishers for statutory remuneration entitlements (royalty claims) until further notice, while the pay-outs for exploitation rights were to be continued with reservations. Said decision was taken based on the uncertain legal situation in the course of a comprehensive risk assessment based on the so-called Business Judgement Rule. From the pay-out per 01 July 2016 onwards, GEMA retained the publisher shares in statutory royalty claims.

2.4.3 HIGHER REGIONAL COURT – PUBLISHER PARTICIPATION

The Higher Regional Court decreed with its decision of 14 November 2016 (Az. 24 U 96/14) following the legal action of two authors that GEMA was not entitled to participate publishers as a general rule in its pay-outs for exploitation rights and statutory remuneration entitlements (royalty claims). The court did not allow an appeal. GEMA thus launched an appeal against refusal of leave to appeal before the Federal Court of Justice. Due to the decision of the Higher Regional Court, the GEMA Supervisory Board decided in its meeting on 08 December 2016, not to pay out to publishers on 01 January 2017 and to run a so-called Electronic Confirmation Process prior to the next pay-out to publishers where GEMA would verify the contractual relations between authors and publishers.

In the meantime, publishers received advance payments for the pay-outs on 01 January 2017 amounting to 80% for sub-published and 60% for original repertoire. The advance payments were off-set with the following pay-out on 01 March where the January pay-out was held.

In order to prevent a statute of limitation situation of potential claims for a payment clawback against publishers for pay-outs from 2013, GEMA has, following the decision of the Higher Regional Court, obtained declarations for the waiver of claims under the statute of limitation for pay-outs in 2013 from its publisher members. Provided that no waivers for claims under the statute of limitation were made, GEMA took measures to delay the statute of limitations, i.e. initiated judicial reminders before the turn of the year.

Pursuant to the decision of the Higher Regional Court, the legal committee of the German Bundestag decreed a proposal for regulating the copyright contract law and the publisher participation on 13 December 2016; the proposal entered into force following a fast-track procedure on 24 December 2016. Pursuant to Art. 27 para. 2 CMO Act (revised version), GEMA may participate authors and publishers jointly again based on fixed shares once the law has entered into force, irrespective of the question who assigned the rights to GEMA. Pursuant to Art. 27A CMO Act (revised version), the publisher participation in statutory royalty claims is, however, subject to the authorisation of the author.

As a consequence, the Supervisory Board decided to catch up on the pay-out for publishers held off on 01 January 2017 with pay-outs on 01 March 2017. The pay-outs of 01 April 2017 which had been postponed to 01 June 2017 prior to the legislative change, was brought forward again to 01 May 2017 for authors and publishers.

F. OUTLOOK FOR FINANCIAL YEAR 2017 – FORECAST REPORT

1. FORECAST FOR GEMA'S OVERALL ECONOMIC DEVELOPMENT

For 2017, the Federal Government expects an annual average increase in the Gross Domestic Product of a real rate of 1.4% (previous year 1.9%). Subject to the working day effect being adjusted, the GDP shall increase in the coming year by 1.6%. The continued growth in employment builds the basis for a continued domestic economic dynamic trend in Germany. Just like in the previous years, the additional employment mainly arises in the service sector. Future employment growth is also carried by the high influx of immigrant workers from the European Union into the German employment market. The high influx of refugees is expected to be more gradual in terms of employment growth.

In the Eurozone, the economic recovery is continuing in a difficult global environment. Growth expectations of the previous years were roughly met. In this year, a moderate growth of 1.5% is expected.

2. FORECAST FOR THE MUSIC INDUSTRY

The prognosis for the music industry is that the trends of the past few years continue, including a further decline in the sales and turnover figures for sound recordings, and a positive outlook for live music. Apart from that, it is also expected that the online

sector, in particular streaming, continues to grow further, although the scope of said music exploitation still does not allow music authors an adequate participation in the respective economic results.

Through a multitude of negotiations, arbitration proceedings and court cases, GEMA is striving to enforce its members' rights to receive an adequate remuneration in this sector.

3. FORECAST FOR GEMA'S BUSINESS DEVELOPMENT

GEMA forecasts a stable income development at a similar level for financial year 2017 despite some positive one-off effects in 2016 (e.g. YouTube agreement for 2009-2016). It is forecast that the negative market development regarding the domestic and international sound recording sector can be compensated by income growth in the live music and online sectors. Regarding the expenditure development, it is expected that the coming financial year will see a slight decrease.

Munich, 8th March 2017,

Dr. Harald Heker
Lorenzo Colombini
Georg Oeller

The Managing Committee

AUDITORS' REPORT

Based on the results of our examination of the annual financial statements and the management report, we hereby grant the following unqualified opinion:

“We have examined the annual financial statements – consisting of the balance sheet, profit and loss statement, cash flow statement as well as the notes to the accounts – including the bookkeeping and management report of GEMA, Society for Musical Performing and Mechanical Reproduction Rights, Berlin, for the financial year from 1st January 2016 to 31st December 2016. The bookkeeping and compilation of the annual financial statements and the management report are subject to the responsibility of the legal representatives of the society, pursuant to the provisions of the German Commercial Code as well as the complementing provisions of the Act on the Administration of Copyright and Related Rights by Collective management organisations (CMO Act – VGG) and the complementing provisions of the Statutes. It is our responsibility to express an opinion on the annual financial statements based on our audit of the accounts and book keeping and the management report.

We examined the annual financial statements pursuant to Art. 57 para 1 clause 1 of the CMO Act (VGG) and the provisions in Art. 317 of the German Commercial Code (HGB) and in adherence to the German guidelines set by the Institute of Private Auditors in Germany (IDW, Institut der Wirtschaftsprüfer). According to these guidelines, the audit is to be planned and executed so that inaccuracies and infringements materially affecting the image of the net assets, financial position, and income situation – as conveyed by the annual financial statements, duly regarding the guidelines of correct bookkeeping and the management report – can be detected with sufficient certainty. Knowledge of the business activities and the economic and

legal environment of the society as well as the expectation of potential errors were taken into account when agreeing the audit procedures. In the course of the examination, the effectiveness of the in-house control system for financial reporting and accounting, as well as documentary evidence of the bookkeeping entries, annual financial statements and management report, are evaluated chiefly based on sample audits. The audit consists of an evaluation of the guidelines for compiling the balance sheet and the legal representatives' basic estimates, as well as the assessment of the overall depiction of the annual financial statements and the management report.

We believe that our examination forms a reasonable basis for our opinion.

Our audit did not result in any reservations.

In our opinion, based on the results of our examination, the annual financial statements are in line with legal regulations and additional provisions from the Articles of Association and were created duly regarding the correct bookkeeping guidelines and therefore reflect an accurate image of the actual circumstances of the association's net assets, financial position and income situation. The management report is in line with the annual financial statements, corresponds with statutory provisions, and conveys an overall correct image of the association's position and correctly represents the opportunities and risks for the future development of the association.”

Munich, 9th March 2017

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GEMA

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