

GENERAL ASSEMBLY

GEMA

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REPORT OF THE CEO AND CHAIRMAN OF THE MANAGING COMMITTEE DR. HARALD HEKER

Dear members,

Our last General Assembly took place early October 2020. Back then, silence ruled Germany's stages. Today, it is still quiet. A silence which affects us all.

And a stark contrast to GEMA's bustling activities. Even though the licensing operations for the live sector disappeared in general, we have been busy working on other measures. Measures

- To cushion the effects of the pandemic for our members and customers at least a little,
- To lobby politicians for specific subsidies for creators, performers and publishers affected by the pandemic,
- To push for digitisation processes to be accelerated.
- And we were, of course, intensively involved when it came to the implementation of the EU Copyright Directive into German law.

Let me focus on this topic first as it has created a lot of upheaval in the last few weeks.

On 20 May, the German Bundestag adopted the EU Copyright Directive into national law. It was the biggest reform of copyright in a long time. This process had, however, started more than 10 years ago. Back then, we already took a strong stand in Brussels for a new copyright. That was because the lack of a governing law made it possible for host providers such as YouTube to refuse to adequately pay creators and to simply walk away from the negotiating table. A political solution was therefore urgently needed. And GEMA contributed significantly that this solution was finally reached.

In 2019, the EU Directive was finally adopted. Many of you will recall that this was anything but a sure thing! But: Europe said "Yes to Copyright", Europe had the backs of cultural and creative professionals.

Not even two years later, this joy about what had been achieved seems to have made place for a certain scepticism. As if the good and important approaches might have got stuck somewhere between Brussels and Berlin. But is this really the case? Let us take a closer look what the reform actually means for music creators. The core piece are the provisions for the responsibilities of online platforms: Providers such as YouTube or Facebook are liable in future. They must conclude licence agreements with the rightsholders if their works are used on their platform. Creative professionals will receive a remuneration for the exploitation of their works from the platforms, no questions asked. And there are other new features:

- It will be much harder in the future to force creators against their will to enter into total buyout contracts.
- The publisher participation in statutory remuneration rights will be placed on a new legal basis.
- The trusted system of collective rights management of creators and publishers in joint collective management organisations will be strengthened overall.

- “Notice and takedown” turns into “Notice and stay down”. This means: Upon request by the rights-holders, platforms must permanently block unlicensed works in future. Previously, rightsholders had to go to court to fight this out for each platform in cumbersome legal proceedings. An effort which many have, understandably, shied away from.

The German Bundestag has, ultimately, picked up other inputs from us: Melody protection, which is important for music creators, was not deleted without a substitution as planned but instead the specific protection worthiness of melodies in a modified form is contained in the law. In the new legal framework, this provision continues to offer an important level of protection for music creators, it thus strengthens the control of its works. And in the course of the so-called “15-second-uses” for music, moral rights were improved in order to be able to prevent misuse more quickly.

Especially said 15-second-rule has led to a lot of discussions recently. To clarify: It does not mean that music of up to 15 seconds can be used and arranged for free in the future. It only establishes that such a minor use in terms of time is not immediately and automatically blocked by filter systems during its upload. Provided that there is a legal infringement, such as that of the moral right, the rightsholders can obtain an immediate block of the content at any time. The use as such is therefore not legalised by the provision and it is not free of licence fees either. And purely commercial uses are excluded. You can therefore not simply use 15 seconds of music, for example for a commercial, free of charge, something that has been part of the discussion at times.

We as GEMA still regard this provision as critical but it has at least been defused upon our insistence. And we were particularly keen to maintain the protection under moral rights. By the same token, this use must not have any negative effects on the remuneration for music creators.

Of course, items such as the “15-second rule” or the “pastiche limitation” were not on our “wish list”. The reform is an act of balancing the interests of many players. Not everything was implemented in our spirit, and in some places, the reform lags behind our expectations. But I do plead that we keep the bigger picture in mind when we assess it: As part of the music business, we say goodbye to a decade where the lack of esteem for creative performances and massive attacks on the rights of creators were the order of the day.

The new law is definitely pointing in the right direction. Now it comes down to improve the remuneration situation of the music creators as a whole. Let us use these opportunities that are presented to us by the law. I am convinced that we will succeed in this through our continued joint efforts.

Change of subject. GEMA and COVID-19. COVID-19 affected the existence of many music creators. And the threat is still there, as we all know. Right from the beginning, GEMA has been trying to cushion the financial impact for its members. With the “protective shield live” programme and the “corona relief fund”, we managed to provide financial support to more than 4,000 members at short notice and in an unbureaucratic manner. More than 8 million euros were paid out from both of these aid programmes, as advance payments or even as direct assistance.

GEMA is going to build a new financial protective shield for the current year. After all, revenues from daily business have, of course, decreased sharply, which is going to affect the pay-outs this year in turn. After the pay-out dates for the live and broadcast sector, GEMA is therefore going to open up the possibility to ask for lump sum advance payments again next month. This time, other categories will be included apart from the live categories, such as the music playback sector. On top of that, if you are a publisher, you can now also ask for advance payments if your GEMA pay-outs collapsed due to the pandemic. Details are on our website and on the Online Portal.

Another aid measure is also just about to be launched: Support for creators and performers via a grants programme. A programme which is to be implemented by GEMA and other collective management organisations. We initiated it and have lobbied the government heavily. We highlighted time and again that other programmes do not help many solo creatives and that creative professionals find themselves in a special situation. We had already pointed out early that the loss of music uses last year will only have tough consequences for many music creators this year, during this year’s pay-outs.

Our arguments were persuasive and the Federal Government listened to them, especially State Minister Grütter. She supported this programme very much. As such, GEMA can soon pay out 30 million euros in grants. This amount will enable up to 6,000 music creators to enjoy a 4-month stipend of 5,000 euros. Are you a freelancer, solopreneur and are living permanently in Germany as a music creator? Do you have an annual income of up to € 60,000? Then apply for this, soon to come on our website.

I had already told you in my report last year that GEMA also supports its customers during the pandemic. Right from the start, we offered support to our customers whose businesses had to stay closed due to official administrative orders: We have let contracts rest and refunded already made advance payments. These measures were extended until the end of May this year.

Part of the support for our customers was also that GEMA took on the coordination of the so-called "venue programme" of the Federal Government in 2020, as part of the rescue and future programme NEUSTART KULTUR. First, 30 million euros were available for the venues so that they could comply with COVID-19 rules. GEMA, aware of its duties to the entire music business, did not hesitate when asked whether it wanted to take over the allocation of the monies in question. And this is how mobile stages, IT equipment, additional hygienic concepts, protective installations, Plexiglas panes, contactless payment systems, online tickets and better ventilation found their way to about 600 venues. From Backstage to Rock am Ring, from Schloss Moritzburg to Gretchen in Berlin. The earlier a venue equips itself in line with COVID-19 regulations, the faster we will be able to listen to live music there.

The amount of 30 million euros has, due to the very high demand, been increased several times to nearly 70 million euros in order to also include music clubs, performance venues and festivals in the support scheme. And, not without being rather proud of our staff, I can state that GEMA managed to pay out millions of these financial aids and subsidies nearly without a sound. I put this hypothesis out there that our vigour and our readiness to help others improved our image among the public and among politicians, and I am sure that this in turn contributed to us being able to "lobby for" 30 million euros in grants for our members.

Now for the financial results of the 2020 financial year which was completely under the sign of the COVID-19 crisis. The overall result amounted to €958,8m of which we paid €806.5m to our rightsholders. In 2019, the overall result was €1,069.4m. Our revenue thus decreased by more than 100 million euros. And that bearing in mind the start into 2020 was still looking promising, when in the first few months the income had grown more quickly than planned and was clearly above that of the previous year. But then, the closure of venues, the catering and restaurant sector, hotels and retail let our licensing activities seize up, and, in some important parts even brought them to a complete standstill. Our regional offices thus lost nearly half of their income of the previous year. We managed to compensate about 100 million euros of that due to a surplus of licensing to the hardware industry that produces PCs, tablets and smartphones. This completed legacy periods still under dispute. Thanks to this one-off financial item, GEMA, compared to other collective management organisations, got away relatively unscathed in 2020.

Our costs: Total expenditure in 2020 was at 152.4 million euros, which represents a cost rate of 15.9%. The costs for operating activities amounted to 142.9 million euros, which corresponds to a cost rate of 14.9%. We are therefore about 11.4m euros below the costs of the previous year. Savings materialised especially because projects were postponed, less travel expenses were claimed and because we remained under budget with our staff costs, for example by not filling any positions that had become vacant for the time being.

Our individual income sectors.

Sound recordings: The result was at €48.6m, a minus of €12.5m compared to the previous year, because the turnover in 2019 was still at €61.1m.

Online: Here, the result was €179.4m, in 2019 it was at €181.8m. A mere comparison of numbers shows a slight decline. This image does, however, convey a false impression because the previous year was characterised by 40 million euros arising from successful contract conclusions, for example one with Amazon regarding the retroactive licence fees for legacy periods. If this one-off financial item is left out, it becomes obvious that the online revenue has continued its growth tendency. Above and beyond that, the COVID-19 crisis affects online collections slightly positively.

Broadcasting: Radio and television: The result of €285.4m is 10 million euros lower than the 2019 result. Regarding the public service broadcasters, the results are stable. We did, however, record a decrease of the ad-supported private radio and TV stations since COVID-19 had a significant impact on the advertising industry in 2020. Something that we had predicted for some time, occurred: there is a short-term rather than a long-term drop in revenues in the broadcasting sector due to more and more advertising moving over to the internet. COVID-19 accelerated this process.

The most obvious impact of COVID-19 was, however, on our regional offices: On the one hand, a major part of events did not take place until the end of the year, on the other hand, closing times ordered by the authorities led to lower revenues. Income amounted to €230m which was €177m less than in the previous year where it was still €407m.

And what do we expect for the current year, 2021? Since the vaccination campaign is picking up speed, we do expect gradual return to normality in some way. Still, COVID-19 is going to have an effect on 2021 and significant risks continue to exist for the development of revenue.

Right after the balance sheet figures I usually extend my thanks, and may I add this word of thanks does not come mechanically but from the bottom of my heart. Especially this year!

Dear GEMA employees, the things you have achieved: the passion, the flexibility that you exhibited in times of the pandemic, the will to enable the support programmes for creative professionals and customers have all been enormous. No wonder then that this also attracted attention outside of GEMA: many customers and also State Minister Grütters expressed their appreciation of the GEMA team. Frau Grütters therefore thanked GEMA in a personal letter on 24 March this year:

“The success with which the 60 partial programmes were conceptualised and have been running, would not have been imaginable without your constructive contribution and without your commitment. I would like to thank you and your team for this and hope that I can also count on your support when we continue the NEU-START KULTUR programme.”

I am very happy to second these words of thanks. And I would also like to extend cordial thanks to all staff who performed extraordinary things at other places in GEMA and showed a heart for music creators!

Dear Managing Committee colleagues Georg Oeller and Lorenzo Colombini, thank you very much for the constructive collaboration in these difficult times. I also would like to extend my gratitude to the Supervisory Board. Dear Chairman Ralf Weigand, I would like to thank you and your colleagues very much. COVID-19 and the worry about the situation of many of your colleagues surely turned this into a difficult year. And of course, my sincere thanks to all members in the other committees who took on responsibility in the past period of office.

Let us talk about the German Music Authors' Award. In 2020, the award ceremony was postponed but finally held this spring! In a totally different format, well, digitally. Necessity is the mother of creation. Together with presenter Nina Sonnenberg, whom many of you will know as Fiva, a GEMA team, travelling all over the country, visited and surprised the award winners. This meant that there was joy, beaming faces and glitter after all. Talented creators writing lyrics or musical works must be awarded during COVID-19 times, especially in COVID-19 times! We managed to do that.

We also managed to continue developing our long-term strategy. It has been three years since Managing Committee and Supervisory Board adopted it. Focus topics are digitisation and growth. You could follow various new approaches taken by GEMA to both topics in the past years, all of them with the goal to offer you as a member continuously improved service. What is probably most visible to you as a member among the digitisation measures is the member dashboard. We introduced it in 2019 and continue to develop it further all the time. It now comprises, apart from usage and remuneration analyses and the new work declaration process all of your financial details and the search and notification for AV productions.

A central building block of our long-term strategy was the acquisition of the digital distributor Zebralution in December 2019 as we had already reported on exhaustively during the last General Assembly. Zebralution registered a clear sales increase in 2020 and this year has been running rather well so far and affirms that the investment was the right decision.

Last year, GEMA also founded MusicHub together with Zebralution. MusicHub provides GEMA members and other music creators with a broad selection of digital tools which supports them in the management and distribution of their own works. At the moment, we are testing the option for music creators to directly distribute their works digitally. The test circle consists of several hundred GEMA members from whom we have received mainly positive feedback and valuable suggestions. Later in the year, we are planning to hold a targeted information and marketing campaign once the test phase has been completed. MusicHub is to be developed further once we implemented the Song Portfolio Manager and the option to log in at MusicHub with the same data as at GEMA in the first quarter. This is the prerequisite for the next steps: To link services

such as Sound file Upload or GEMA work declaration. As such, the acquisition of Zebralution was not just a promising investment; it also enables us to expand our service range systematically.

GEMA already made the next strategic step towards growth and digitisation in the last year. It acquired a share in the enterprise deecoob which can digitally detect events by means of a software. This way, we can identify unlicensed or falsely reported music usages and raise additional licences which increases the revenues for our members.

These examples make clear that GEMA continues to consequently pursue and successfully implement its strategic direction, even in difficult COVID-19 times.

I now come to a conclusion. These are the items I reviewed in my speech:

- The long-awaited and hard-fought Copyright reform.
- COVID-19 aid measures for our members and customers.
- The new grants programme for creative professionals by the Federal Government.
- The 2020 review, naturally.
- Happy winners of the German Music Authors' Award.
- And finally, the successful long-term strategy with our dashboard, Zebralution and deecoob.

A cross-section of the broad field of GEMA activities.

During the pandemic, GEMA proved to be a community of solidarity of its members like never in history, and as a supporter of the wider cultural landscape in Germany, taking on responsibility across various sectors. Wherever we were able to, we tried to make the tough situation for our members and customers easier. We are aware, however, that this is only a drop on a hot stone. We feel with the many creatives and musicians who are in a difficult situation, both existentially and mentally. There is something tragic about the lives of those who cheer up and give solace to so many people with their music in COVID-19 times, when the situation of those very people is so tough right now...

So, we only have one deep desire: One for open stages! Where sounds, lyrics, emotions, feelings of togetherness lift us up again. Our life elixir! We are yearning for venues, concert halls and festivals to be booming again. Although we are not quite there yet, but soon, very soon, at least that is what we all hope, Germany's stages will be filled with life again. In this context, you can be sure that we at GEMA will do everything in our power to make this happen! We will support you wherever we can!