

GEMA
Members' Assembly

01 October 2020

**Report of the CEO and Chairman
of the Managing Committee
Dr. Harald Heker**

Dear members,

I am pleased that you are participating in our Members' Assembly and that I can report to you, via this virtual channel, about our 2019 financial year!

To see how many creatives are suffering under the Corona effects really hurts. This is and has been felt throughout GEMA. We therefore quickly took measures in spring and launched our own Corona emergency relief programme. Five million Euros thus made their way to authors and publishers whose existence was particularly threatened by Corona, and that in an unbureaucratic manner. GEMA has, again, proved its strength as a community of solidarity. Furthermore, we provided a lump-sum emergency relief via our thus entitled “protective shield live” programme, where music authors could ask for an advance on their payouts online,

We are, of course, aware that these acute support schemes are not enough. After all, 2021 will, from a financial perspective, be even more difficult for many of you: Our revenues will be lower than in the previous year so that we are going to pay out less to you. Managing Committee and Supervisory Board will therefore remain active in this field and continue to initiate support measures for 2021. You have already resolved one of them - an amendment to the distribution in the M category.

GEMA has also reacted in a quick and accommodating way towards its customers: Contracts were suspended automatically for the period where music venues had to close. The support continues: Among other steps, we have complied with the request of the Federal Government to allocate 30 million Euros for the measures affecting the conversion and equipment of smaller music venues. This way, such venues can finance “pandemic-proof” measures and hopefully reopen soon.

The means in question stem from the rescue package “Neustart Kultur”, a programme by the Federal Government which aims at a revival of cultural life in Germany in times of Corona and thereafter. Why did GEMA undertake to allocate these monies? For two reasons: We show politicians that GEMA is a reliable partner in the cultural landscape. But what is even more important to us: GEMA thus

contributes that culture venues can reopen more quickly, and musicians can perform again.

This brings us to our core business: To manage your rights as well as possible. Naturally, this includes that you receive your payouts in time because we are aware that the payout represents the backbone of your financial existence – now more than ever. Our staff have therefore done everything that you will receive a timely and complete payment of your money, also in this year.

The payouts per 1 June, the distribution for the performing rights, and the payouts per 1 July, the distribution for the broadcasting rights, have both gone well. This is not a matter of course when we see what has happened at other collective management organisations. Regarding broadcasting rights, the results were achieved with the support of an electronic monitoring process for the first time. Thanks to this process, public service broadcasters are meeting their obligation to provide more complete and accurate reports of their transmitted works. Evaluation deficits which are completely normal at the beginning of such a changeover will hopefully be eliminated in the foreseeable future in cooperation with the broadcasters.

This brings me to our day-to-day business alongside the Corona measures and I will start with the balance sheet of the past financial year. These are very pleasing figures; it was the second best year in our history. In 2019, GEMA was able to continue the positive economic development of the past few years, and once again we exceeded the 1 billion Euro threshold in terms of our revenues. Our revenues rose by 50 million Euros to 1,070 billion Euros compared to 2018, an increase of almost 5%. The payouts to our members and to rightsholders around the world amounted to over 900 million Euros. 2019 was therefore a very successful year for GEMA and its rightsholders.

The costs for operating activities amounted to 143.3 million Euros, which corresponds to a cost rate of 13.4%. Total expenditure in 2019 was at 163.7 million Euros, which represents a cost rate of 15.3%. It is slightly lower than that of the

previous year. We spent the difference - around 20 million Euros - on strategic measures. I will get to that in a bit.

Regarding the individual revenue categories, let's first look at the sound recordings business: The decline in earnings is continuing here and has even accelerated. At 61.1 million Euros, the result is 20 million Euros lower than in the previous year, and if we compare it with 2015, business has even almost halved. The Corona crisis will exacerbate the negative trend, because there were massive restrictions on commerce and trade for months.

In the online category, revenues in 2019 rose strongly by over 72% to almost 182 million Euros. We owe this to the successful conclusion of contracts, especially in video streaming. In this context, a contract with Amazon for the retroactive payment of old periods had the highest share. So, there were some special effects for Online in 2019. This year, our income from online business is unlikely to reach such levels, although the Corona crisis is having a positive effect on that area, especially through higher usage and more subscriptions to video streaming services.

Radio and television revenues fell slightly, by 2.2% to 295 million Euros. This is mainly since advertising revenues of private television stations have declined. Corona is clearly reinforcing this trend, which is why we must assume that earnings in the radio and television sector will continue to decline in the current year. This makes the current negotiations on new broadcasting contracts for the period from 2021 all the more important.

2019 was a very good year for our field service because it was a good concert year. In combination with tariff adjustments and higher market coverage, we were able to increase earnings here by just under 5% to 407 million Euros.

Dear members,

These are the positive figures for 2019. Next year will be quite different because the Corona crisis will lead to an extremely sharp drop in earnings, especially in the field service. Shops had to close temporarily, events are still being cancelled, and bigger

ones are not permitted until the end of the year. In addition - I have already mentioned this - the revenues are also declining in the reproduction and broadcast sectors due to Corona effects. The online segment alone will not be able to absorb this.

But to stay in this year for now: Our staff have delivered a master performance, because our special measures due to the pandemic ran alongside our daily business. In addition, almost everyone worked in the home office initially. Nevertheless, they have really coped with a lot, with great discipline and passion. We cannot acknowledge this in this assembly with a round of applause, but I think I can express my thanks and I also think I may express your well-meant thanks very well. Thank you!

Dear colleagues on the Executive Board, dear members of the Supervisory Board, represented by you, Dr. Ralf Weigand. Being together was often not possible, but we can still work together very well. This has kept us flexible and able to act during the crisis. It is also important for our future. Thanks also to you!

One of the focal points in the cooperation between the Board of Supervisors and the Executive Board is of course GEMA's long-term strategy: Two years ago, the Management and Supervisory Board adopted these. In doing so, we are initially focusing on the fields of action of digitisation and growth, as I explained in detail in my report last year.

The digitalisation of GEMA affects our internal processes and the communication with you, our members, and with our customers. As an example of the digitalisation of member communication, I would like to mention the member dashboard. With this dashboard you can view current usage and royalty analyses. Since November 2019, you can also track the use of your music interactively, for example at concerts. We are taking further steps: This way you will find all your financial data in the dashboard next to the new works registration. Recently, you can also view the AV productions in which you feature with your works.

Our portal was of particular importance in the context of the Corona measures: Within only two weeks, we were able to offer our members the option of digitally applying for advance payments and immediate aid, quickly and easily. The numerous positive, sometimes touching feedback underlines the value of the online portal. The interest in the digital offers in our portal is also growing rapidly: This year there were up to 400% more visits. This and the positive feedback are a great incentive for all those involved to expand and optimise the range of services.

Another important initiative of GEMA was the acquisition of a majority share in Zebralution in December 2019. You know Zebralution as a digital distributor in the music industry - innovative and economically successful. Our participation should help us to position ourselves 'more broadly' in the market. Our core business remains of course the licensing of copyrights, but now we can also offer related services: For example, we want to support our members in the digital distribution of their musical works.

Together with Zebralution, we are currently developing a new digital platform: MusicHub. MusicHub will address all music creators who want to publish their music works on online music platforms like Spotify, Apple Music or Amazon - quickly, independently and without detours.

In July, we asked our members who would like to participate in the test phase for this MusicHub, and many of them responded very positively. Within a few hours, several hundred participants had registered. It was during the lockdown period that we realised the value that such a service can have for music creators. If we progress according to plan, MusicHub will be deployed gradually from October onwards. We want to develop further digital services under this brand, for our members but also for other interested parties.

Zebralution and MusicHub also contribute to the second focus of our long-term strategy: Growth. Talking about growth may seem odd in this Corona year, but right now it is becoming clear that our strategy and our strategic measures are right and important: So that GEMA can act in time to stabilise and expand its income,

especially in times when the music market is undergoing major changes. If GEMA only holds on to existing sources of income, we have to fear a decline in income in the medium term, because the 'traditional' field of activity of a collective management organisation tends to generate less income than in the past. Online revenues cannot compensate for this, partly because the remuneration for use of your works on the internet is still not adequate. Against this background, Zebralution and MusicHub make an important contribution to the GEMA strategy.

In future, GEMA will also be in a position to offer some of its solutions to third parties, other collective management organisations in Germany and abroad for example. This will result in cost advantages for the members in the long run. All in all, may I say: I am very satisfied with the implementation of our strategy in recent months, and we will continue to pursue this path.

Dear members,

We are, of course, always also concerned with topics in the political sphere. I already mentioned that GEMA has taken it upon itself to allocate federal funds for "pandemic-proof" measures to smaller music venues. We are cooperating with the politicians here.

At the same time, we critically observe what politics is doing - or is not doing - for the interests of the authors. Together with other associations, we remain in dialogue with them at both federal and state level in order to readjust funding programmes or set them up for the coming year. In our view, this includes targeted programmes that benefit the solopreneurs. Creators must regain a perspective to work and earn. A lot has been put underway; now the motto is: let us take a close look and be smart when we improve things.

To stay in politics: At our AGM in May 2019, I reported in detail on the EU Copyright Directive which had just been adopted at that time. Article 17 of this Directive makes it very clear that the major online platforms such as YouTube must pay authors for the use of their works by means of a licence agreement. The Corona crisis has further exacerbated the need for adequate remuneration. We all know

how the pandemic has had a massive impact on the income of creative people, because performances are not or hardly ever held, or because shops have had to close. At the same time, Corona has proved to be an accelerator for streaming services: online use of creative works has increased significantly. Thus, the gap between internet corporations whose stock prices are shooting through the roof on the stock market and the many artists and creative people who are plagued by existential fears is growing ever wider.

Politicians must take countermeasures here, more than ever before! EU countries have until June 2021 to implement the Directive into their respective legislation. We hope for an implementation that clearly defines the obligations of the platforms. The Federal Ministry of Justice recently presented an ambitious draft for discussion, but in our view, there is still room for improvement on some key points. We have already forwarded our detailed points of criticism to the Federal Ministry of Justice.

In the end, a clear and unambiguous definition needs to be achieved: Platforms have a duty to pay authors fairly for the use of their works. GEMA will continue to advocate this in the further process. No doubt headwinds will arise again, hence my plea: Stay on the ball with this important topic. Your voice is indispensable in this discussion!

Dear members,

GEMA in times of a pandemic - what does our programme look like? In addition to day-to-day business, we will take new steps in our long-term strategy. In the short term, we will be concerned with the further consequences of the Corona crisis. Of course, we cannot influence the virus, but we can certainly influence how we deal with it as a community of solidarity. We are in the process of developing measures to support the creatives in 2021 as well.

And as for politics: Whether it is a matter of supporting measures in the context of the pandemic or the implementation of the EU Directive into German law: We will closely monitor developments at all levels of policy making.

There is much at stake: The future prospects of the creative people and the cultural diversity in our country. As far as possible we will exert influence. GEMA is well prepared for this, together with our allies. And with you. Please raise your voice if necessary, join in. So that together we can achieve what we have been fighting for so long: A German copyright law that finally protects your intellectual property on the internet and that ensures you an appropriate remuneration for it!