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МУЗИКАУТОР

7

ANNUAL REPORT

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„MUSIC CAN CHANGE THE WORLD BECAUSE IT CAN CHANGE PEOPLE.“

Bono, U2

In 2017 Musicautor turned 25 years since its establishment. For over a quarter of a century, the association has managed to bring together nearly 3,000 authors and publishers in Bulgaria. People to whom music is not only culture, message and livelihood, but talent, dream, professionalism and vocation.

There are countless things to say about the power of Music. But maybe the change that Musicautor seeks through its existence will help improving the environment and instead of just observing and enjoying the power of music, will form sensitiveness and respect towards the efforts of its authors.

In 2017:

- ▶ The revenue of Musicautor approached the amount of BGN 7.5 million for the second time.
- ▶ The software developed to distribute the funds collected, despite the turbulence undergone by the project, has progressed significantly and is due to be accomplished by the end of April 2018.
- ▶ Musicautor managed to launch and realize key partnerships with many organizations (EY Bulgaria, the American University in Blagoevgrad, the US Embassy in Bulgaria, the University of National and World Economy, the Union of Bulgarian Artists, the Bulgarian National Television, the Municipality of Sandanski), through which to promote its mission, the substance of copyright, to outline the need and the aspects of intellectual property protection.
- ▶ Using the mechanisms of its Cultural Fund, the organization supported a number of events such as BG Music Festival, Music Hackathon Bulgaria, The International Guitar Festival Pleven 2017, The International Pop and Rock Music Festival Sofia 2017, as well as 58 individual projects of Bulgarian authors for new Bulgarian music production.

▶ With the financial allocation of the care allowance funds, Musicautor has continued to provide material and moral support to its members suffering from a severe illness.

▶ Through its internship program, the association has continued to interact with young people by attracting some of them to its team.

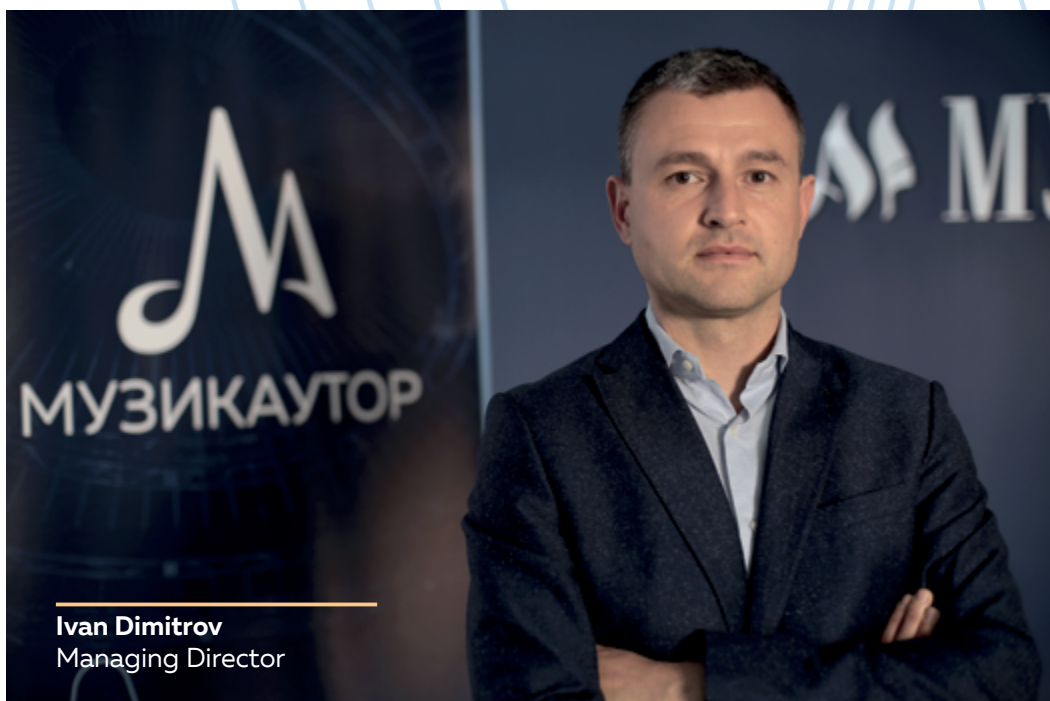
All these positive aspects of development have taken place in an unfavorable environment. In a number of international indices and statistics reflecting the level of intellectual property protection and the funds received from copyright, our country is ranked at the non-prestigious last places. This problem is structural. And the solution is to do a qualitative reform. This is necessary not only to protect the interests of the rightholders. Coping with the piracy, reducing the informal economy, performing ongoing thorough monitoring will encourage not just the artists to be proactive enough to create a product but will impact other industries, including international investments¹.

Every single second of time lost for reforms puts us in a blind alley and brings loss of energy. Musicautor has endeavoured to persuade the Ministry of Culture to involve the World Intellectual Property Organization as a partner in elaborating the Cultural Development Strategy. However, the lack of understanding and clear vision has left the working group formed of 120 people paralyzed and devoid of international analyzes, good practices to unlock and revive the potential of Bulgarian culture.

At the beginning of December, the European Commission announced that it would initiate a criminal procedure against Bulgaria as it did not transpose Directive 2014/26/EU of the European Parliament and of the Council dated February 26, 2014 on the collective management of copyright and related rights and the multi-territorial licensing of rights in musical works for online use on the internal market. The fine was set at € 20,000 per day. This delay led to an interesting precedent - a law draft reflecting a European directive - to be submitted to the National Assembly by a group of MPs. Without an in-depth analysis of the issues, public discussion and a compliance table, this law draft is doubtlessly full of weaknesses which we hope to be corrected in the final law.

At the end of 2017, Musicautor has launched a joint project with the Bulgarian National Television, named "The Cost of Creativity". The format that took place in "Starting the Day with Culture" programme aimed to enable all industries addressing their problems and encouraging the partnerships to overcome them.

The year 2017 would be remembered with the media and judicial pressure on the part of the Bulgarian National Radio in the negotiations for updating the copyright rates. The necessity of equal treatment for the users arising from the Copyright and Related Rights Act has led to unprecedented and tendentious media pressure on the air of the national radio. The contract signed by and between the two organizations on June 20, 2017 has fixed the relationships again. Of course, the judicial proceedings that has been initiated during the confrontation would elaborate further. The lawsuit in the Supreme Administrative Court is still pending, whereby Musicautor disputes the tacit refusal of the Ministry of Culture to approve the rates; there is an ongoing proceedings before the Commission on Protection of Competition (subject to judicial review) initiated by the Bulgarian National Radio against Musicautor for abuse of a dominant position. Only the claim of the Bulgarian National Radio against Musicautor has got its resolution. The same has been rejected as inadmissible and the National Radio has been ordered to pay the administrative expenses to the author's organization. The funds have been donated. **Because music not only changes but also unites.**



Ivan Dimitrov
Managing Director

MUSICAUTOR REPRESENTS OVER 95% OF THE WORLD REPERTOIRE FOR BULGARIA

Musicautor is a non-profit organization for collective management of copyright of composers, authors of lyrics and music publishers.

Musicautor has more than 3000 Bulgarian members. Through reciprocal contracts with foreign sister societies in nearly 100 countries, the organization offers almost the entire world repertoire of music for the Bulgarian market.

The society was founded in 1992 and registered with the Register kept at the Ministry of Culture under No. 1 of 13th January 1994.

The society has not opened and registered any branches.

Being a collective rights management organisation (CRMO) Musicautor:

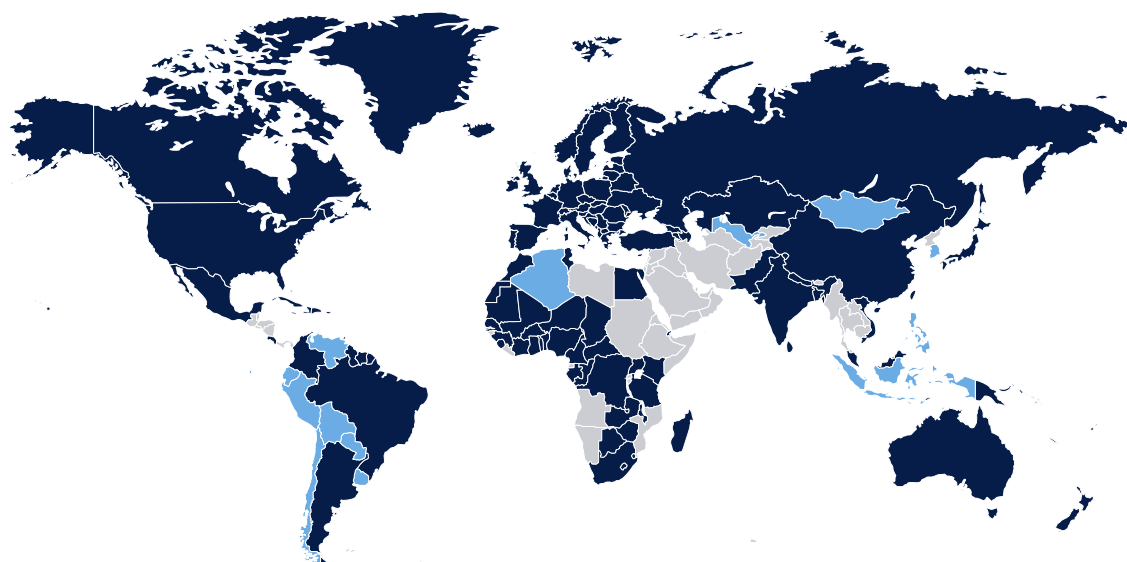
- ▶ licences (signs contracts with) users who use music works in their business - media and operators, establishments and outlets, internet platforms and websites, concert organisers, etc.;
- ▶ collects royalties from the users on the basis of tariffs approved by the Ministry of Culture;
- ▶ allocates the royalties to the right holders in accordance with the Allocation Rules adopted by the General Meeting of the society;
- ▶ generates no profit.

MUSICAUTOR IS MEMBER OF

International Confederation of Societies of Authors and Composers



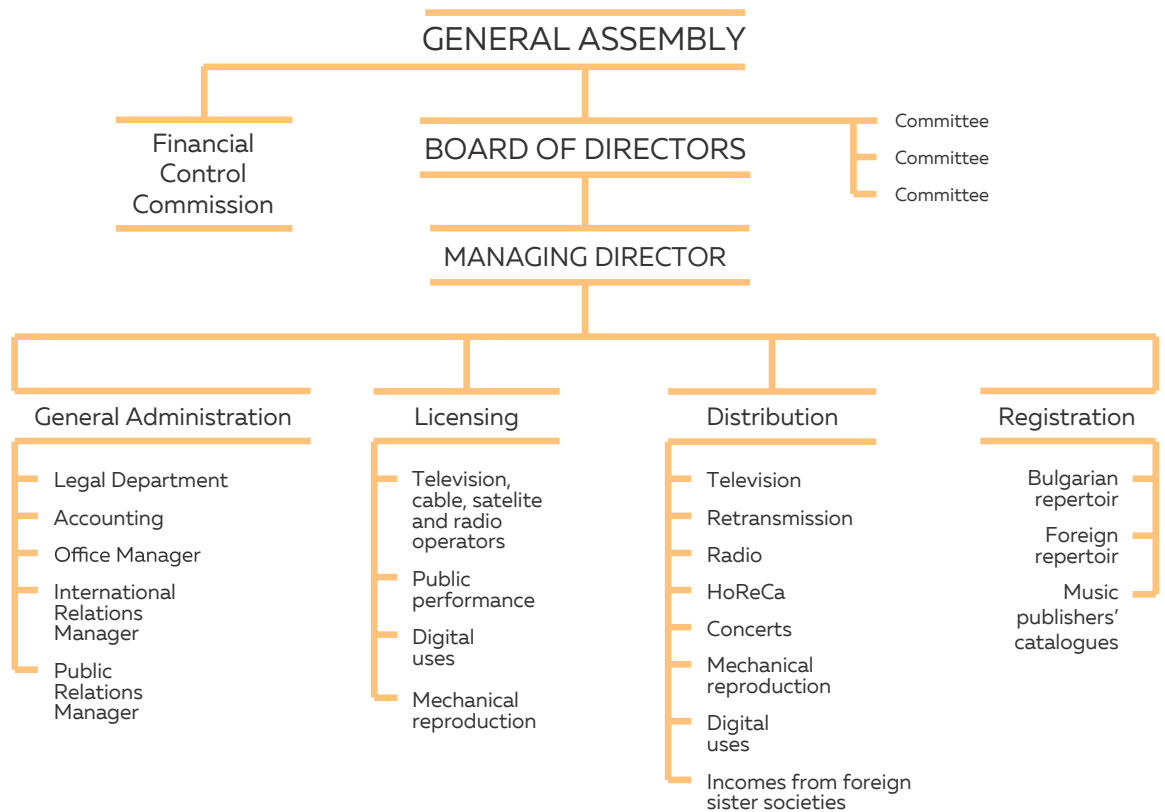
International Bureau of Authors' Societies for Collective Management of Mechanical Rights and Reproduction



Foreign sister societies which signed reciprocal contracts with Musicautor

Foreign sister societies in negotiations with Musicautor for signing reciprocal contracts

Foreign sister societies which haven't signed reciprocal contracts with Musicautor



BOARD OF DIRECTORS

Iassen Kozev - chairman
 Vasil Gyurov - deputy chairman
 Stoyan Mihalev - deputy chairman
 Vasil Rusev
 Deyan Kamenov
 Iassen Velchev
 Prof. Georgi Arnaudov
 Prof. Georgi Kostov
 Minko Lambov
 Rossen Stoev
 Krasimir Kurtev
 Peter Doundakov
 Prof. Stefan Dragostinov
 Virginia Publishing EOOD
 Shubert Music Publishing OOD

FINANCIAL CONTROL COMMISSION

Valery Slavchev - chairman
 Vasil Stoev
 Zahari Georgiev

MANAGING DIRECTOR

Ivan Dimitrov

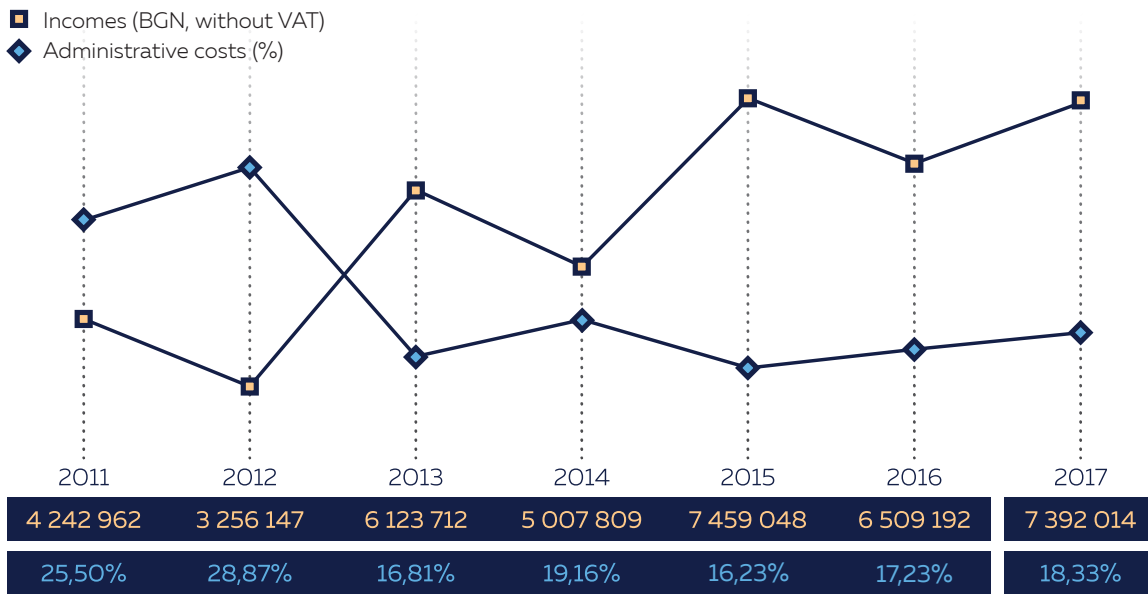
Pursuant to Art. 37 of the company Statutes, Musicautor is represented by its chairman, the deputy chairmen and the CEO, together or separately.

MUSICAUTOR – MISSION

Musicautor promotes and protects authors with the implementation of innovative practices in order to increase the remuneration from the exploitation of their works. We believe that by meeting the current legal, licensing and technological standards in collective management of copyright we will be recognized as a reliable and trustworthy partner of authors, users and related international organizations. Our team is aware of and takes the responsibility through its operation to be a factor for sustainable integration, validation and implementation of copyright in the value system of Bulgarian society.

MUSICAUTOR INCOME

2011 - 2017



KEY FIGURES

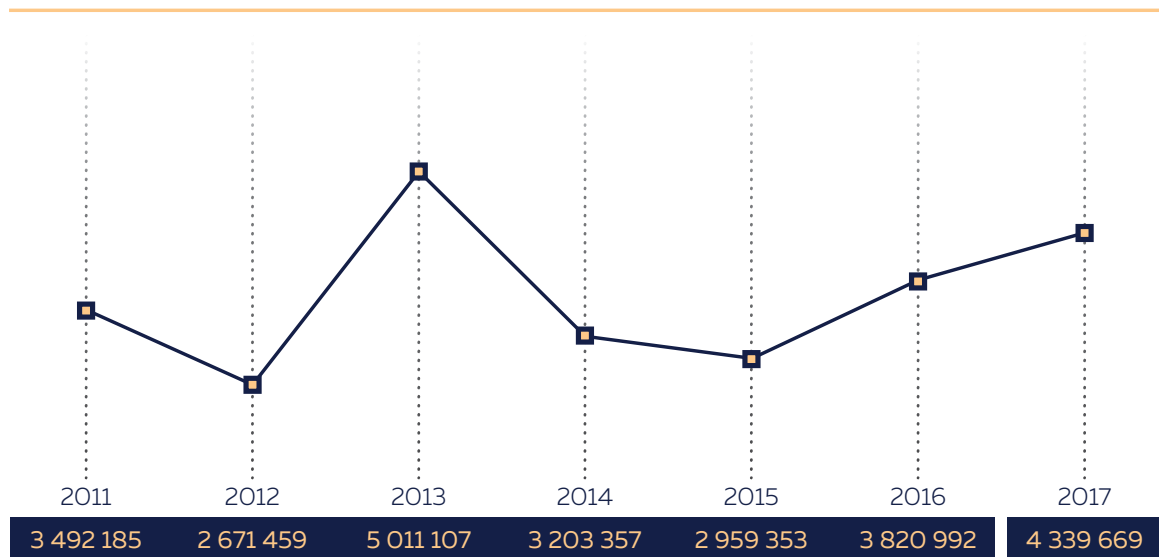
INCOME 2017 BREAKDOWN

TYPES OF USERS	REPORT 2017	% OF THE FORECAST	ROYALTIES	FOR AGENTS	ADMINISTR. COSTS
Television	2 919 881	91%	2 335 905		583 976
Radio	1 889 260	97%	1 511 408		377 852
Retransmission	588 239	82%	529 415		58 824
HoReCa	988 837	82%	741 628	148 326	98 884
Digital Rights	102 159	46%	91 943		10 216
Mechanical Rights	79 942	40%	67 951		11 991
Cinema	293 881	98%	249 799		44 082
Concerts	272 947	61%	218 358		54 589
Currency	256 868	86%	231 181		25 687
TOTAL	7 392 014	87%	5 977 587	148 326	1 266 101

All amounts are in BGN without VAT

DISTRIBUTED ROYALTIES

2011 - 2017



All amounts are in BGN without VAT

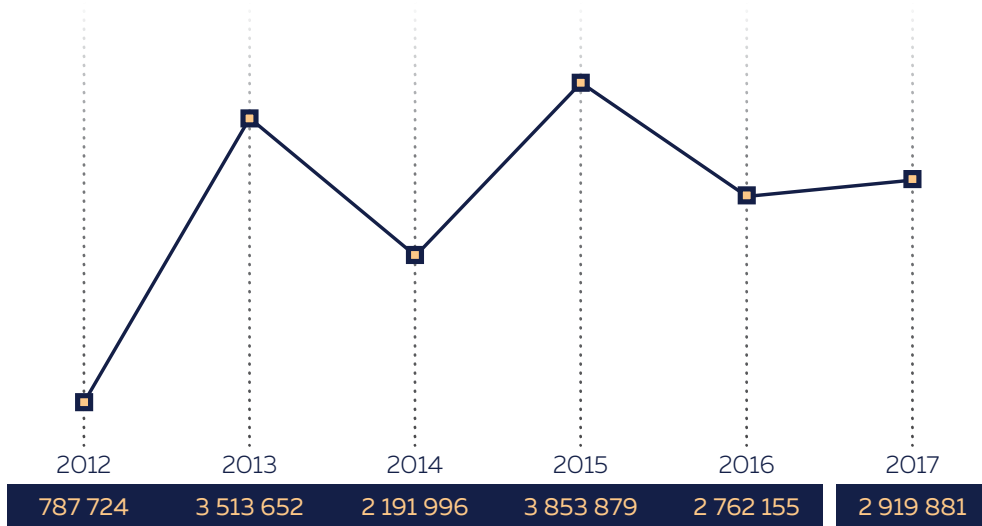


Distribution software

The new distribution software project is a massive investment not only in technology and optimization of company's activities but also a philosophy of its ambition to operate and serve the interests of authors and publishers. A serious development slowdown has been recorded during the year. Gathering multiple critical factors has led to the need of restructuring the interaction with the developer and signing a contract with a new company, namely Sirma Solution AD. Thus, despite the slowdown, the risks associated with the human resources of the developers, the need of assigning additional functionalities, imposed as a requisite upon signing the contract and beyond the scope of the specification, the coverage of new versions of some of the international standards and codes have been overwhelmed. The demonstrated flexibility and adaptability of all people involved in the process has led to its stabilization, and respectively confident coming to a successful end.

TV LICENSING

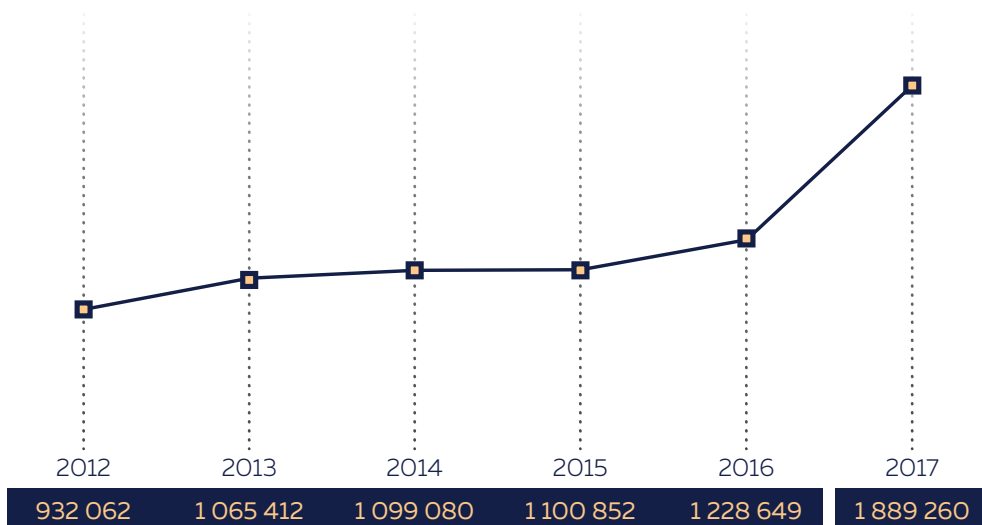
INCOME 2012 - 2017



All amounts are in BGN without VAT

RADIO LICENSING

INCOME 2012 - 2017



All amounts are in BGN without VAT

THE BNR CASE

Discussions with the Bulgarian National Radio (BNR) representatives have been periodically held since signing the contract with BNR dated 2011. According to the contract concluded in 2011, the Bulgarian National Radio had the right to broadcast music content up to 40% of their programs, for which it was obliged to pay 1% of the state subsidy received (which excludes the so-called "target subsidy" by law) and a percentage of the advertising revenue.

The terms so agreed set the Bulgarian National Radio in a privileged position compared to the private media, because the latter pay significantly higher rates under the approved tariff, with all private radio stations generating approximately BGN 20 million, compared to the budget of the Bulgarian National Radio amounting to BGN 44 million.

Separately, the Bulgarian National Radio has unilaterally increased the agreed percentage of the music used over the years without paying any compensation for this (the music used by the Bulgarian National Radio in 2011 - 40,98%, 2012 - 47,78%, 2013 - 51,67 %, 2014 - 53.51%, 2015 - 54.97%, 2016 - 58.21%).

The imbalance in relations, the need for equality and the willingness of Musicautor to emancipate in the relations with the BNR have led to official invitation for a meeting and discussions at the beginning of June 2016, immediately after the appointment of the new media management body.

Four meetings have been held by the end of 2016. As a result of these discussions, Musicautor suggested that the Bulgarian National Radio should incrementally achieve copyright royalties levels for a period of 5 years similar to the model used in the tariff of the private media within the period 2010-2014.

The contract with the Bulgarian National Radio had a revolving clause, according to which the same should be renewed for a period of one year if neither party terminates it not later than the end of May in the previous year. As far as this was concerned, Musicautor and the BNR have signed an annex shortening this term to one month in order to gain extra time to find a balanced and fair solution to the problem. Despite the annex signed, however, the Bulgarian National Radio was negotiating just formally without giving any feedback as previously committed. This ultimately forced Musicautor to give one-month notice for contract termination pursuant to the annex signed by and between the parties at the end of September.

A telling point for this period was that while representing the draft budget of the Bulgarian National Radio in the parliament the radio management did not mark and motivate a request to increase its subsidy with the necessity and understanding of paying higher and fair wages to the authors.

Unfortunately, the passivity of the negotiating team of the BNR continued after handling the advance notice of contract termination. Therefore, as of the beginning of 2017 Musicautor has also sent a ban to the radio to broadcast music from the repertoire of the society. This notarial

prohibition is an act that publicly demonstrates that the Bulgarian National Radio has not received a license from Musicautor, namely a preliminary and written permission within the meaning of the Copyright and Related Rights Act.

Technically, the first suggestion by the Bulgarian National Radio was made on 23.12.2016, and its parameters did not even cover the increased usage of music by the Bulgarian National Radio during the last 5 years. In the days remaining by the end of the year, the written communication between the two organizations increased significantly, but unfortunately not in a direction of finding a balanced solution.

The non-observance of basic rules such as pluralism and reflection of the other's point of view was typical for the media campaign of the Bulgarian National Radio against Musicautor in 2017. For this reason, the loudly announced problem brought by the Bulgarian National Radio has been reflected only at the beginning. The people remained uninformed with regards to the outcome of the issue. Four judicial formations did not find arguments and legal logic to admit media claims. The taxpayers also did not realize that the radio had been ordered to pay the administrative charges of Musicautor due to its inadmissible claims. Within the limits of the law, outside of the hysteria broadcasted on the air, the basis of the problem defines the position of Musicautor as accurate and substantiated one. **The declaration of many members who supported Musicautor in the dispute with the Radio, the letters from our international partners, etc. have not been broadcasted on the air of the BNR.**

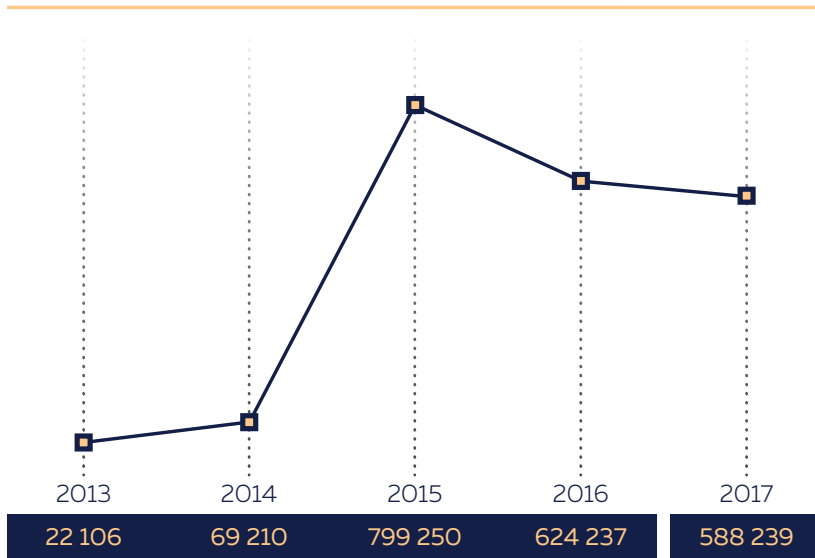
On February 23, 2017, both parties agreed on a gradual increase in the rates due for a period of three years. On that date, the ban on the use of musical productions from the repertoire of the association was waived. However, the contract governing the music was signed later on June 20, 2017, a day after the problem has been discussed at the Culture Committee and the media at the National Assembly.

At this stage there was a pending proceedings in the Commission for Competition Protection following an alert issued at the Bulgarian National Radio against the society.

There was a technical issue for settling the quality of the reports on the use of music pursuant to the provisions of Art. 58, Par. 1 of the Copyright and Related Rights Act and the current contract. Between 15 and 20% of the information provided by the Bulgarian National Radio was incorrect. However, after a meeting, both the organizations discussed the measures to overcome these gaps in the reports. The latter was an example of co-operation and partnership between the parties in finding a functional solution to a common problem. **This approach should also be the basis for the future relations.**

RETRANSMISSION

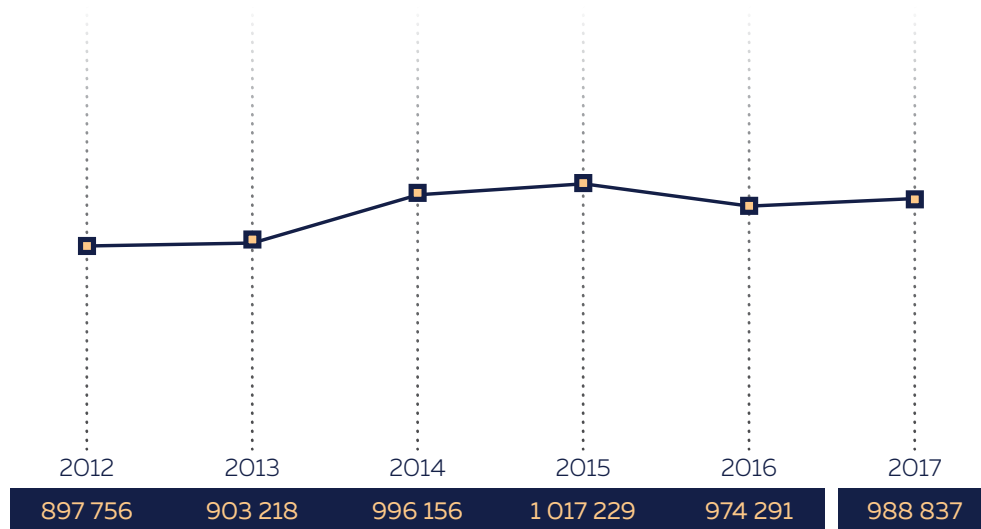
INCOME 2013 - 2017



All amounts are in BGN without VAT

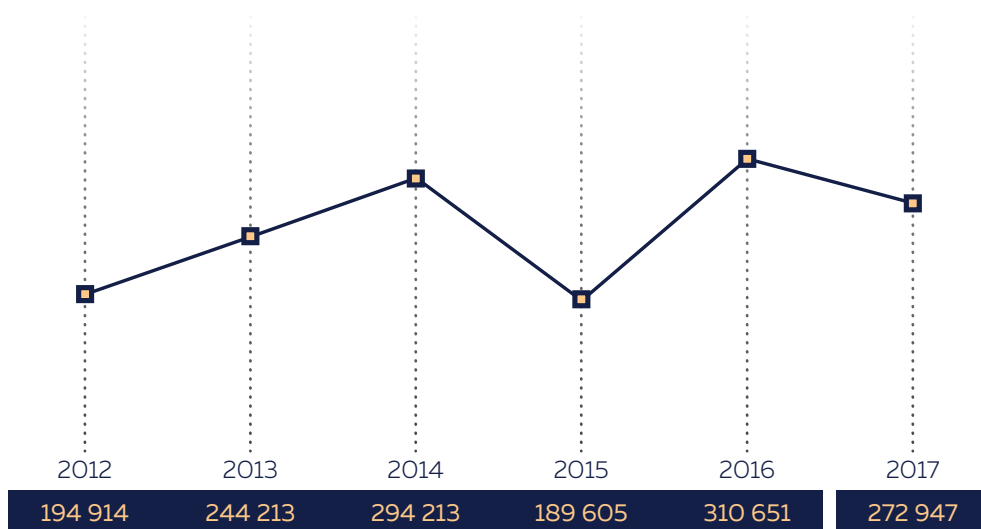
PUBLIC PERFORMANCE

HORECA INCOME 2012 - 2017



All amounts are in BGN without VAT

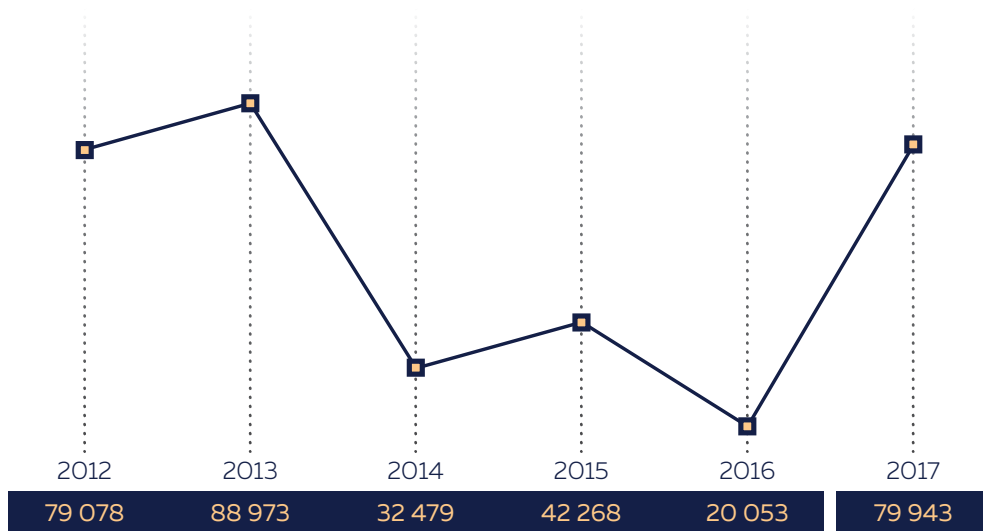
CONCERTS



All amounts are in BGN without VAT

MECHANICAL RIGHTS

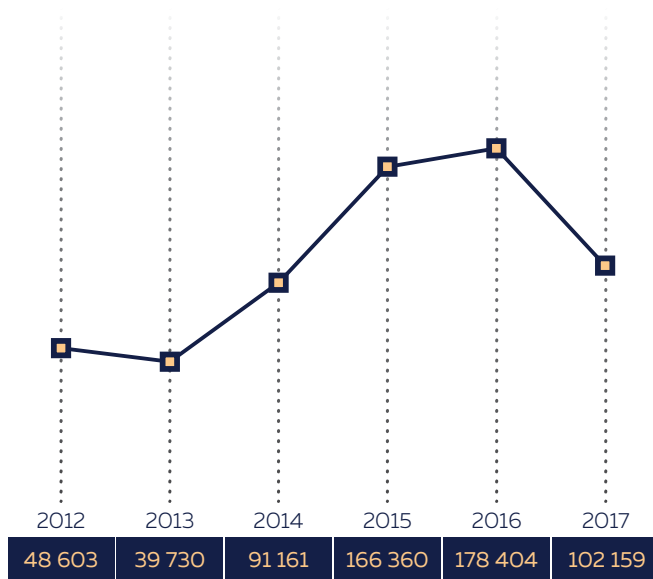
INCOME 2012 - 2017



All amounts are in BGN without VAT

DIGITAL RIGHTS

INCOME 2012 - 2017



All amounts are in BGN without VAT

SOCIETY'S FUNDS - BALANCES, INCOME AND EXPENSES TO 31.12.2017

Nº	PROGRAMS REVENUE AND EXPENDITURE LINES:	SOCIAL FUND	CULTURAL FUND	TOTAL
I	Balance on 01.01.2017	154 040	868 664	1 022 704
II	Revenues 2017:			
	From distribution small rights 2016	173 070	173 070	346 140
	From distribution bTV 2014	25 983	25 983	51 966
	From BMA by Agreement	0	6 510	6 510
	From concerts for the period 06-12.2017 by resolution of the Board	6 554	6 554	13 108
	From distribution small rights RTV 2014	7 421	7 421	14 842
II	Total revenues:	213 028	219 538	432 566
III	Expenses:			
1	Amounts paid to members (Anniversaries and social benefits)	44 520		44 520
2	Amounts paid to members (retirement age)	243 182		243 182
3	Amounts paid to members (promotion of works)		254 497	254 497
4	Amounts paid to Commission meetings		3 600	3 600
5	Amounts paid to „International Pop and Rock Music Festival- Sofia 2017 ”		5 000	5 000
6	Amounts paid to Music Hackathon - November 2017		500	500
III	Total expenses:	287 702	263 597	551 299
IV	Balance on 31.12.2017 (I+II+III):	79 366	824 605	903 971

All amounts are in BGN without VAT

Ministry of Culture - disputes with arbitrators

During the year, the Ministry of Culture (MC) and Musicautor reacted in a different way to many issues concerning legislation, law enforcement, objectivity and transparency. To resolve these contradictions, Musicautor decided to seek the cooperation of third parties - arbitrators. Within the meaning of the appropriate laws, many law suits have been filed as separate issues.

For example:

- ▶ the refusal of the Ministry of Culture to approve the tariff of Musicautor for the Bulgarian National Radio, agreed with the branch organization ABRO, in accordance with the preceding instructions of the Ministry of Culture. Further to that, the supervisory body went beyond its authorities and gave an additional term, not laid down by the legal procedure, to reach a compromise between the arguing parties (the Bulgarian National Radio and Musicautor). The proceedings are pending;

- ▶ during a live broadcast in the morning block of one of the national televisions, the Director of the Copyright Directorate called Musicautor "racketeers" in the issue of the Bulgarian National Radio and presented its own negative opinion on the website of the Ministry of Culture regarding the organization thus engaging the entire ministry with that issue. After some complaints brought by Musicautor, the Inspectorate imposed two separate disciplinary sanctions on the civil servant for acting beyond what is admissible;

- ▶ in accordance with the Law on the Access to Public Information, Musicautor filed 9 claims on key issues concerning the activities of the Ministry of Culture related to copyright. In 8 of the cases (in 2 of them - partially) no access to the information has been provided. As a consequence of the subsequent complaints, 4 of the proceedings have already been decided at the court in favor of Musicautor, as well as orders which are also not fulfilled. At the beginning of 2018, the inspectorates at the Ministry of Culture and the Council of Ministers have been alarmed. The purpose of these proceedings is to generate background information for analysis on which base to eradicate all unclear and unhealthy practices allowing double standards in law enforcement, inadequate planning and spending public resources for personal unlawful benefits, etc.

In all developed countries where copyright is adequately and successfully safeguarded, the role of the resource agency or the ministry is the key factor for success. The passivity and opacity are unacceptable social elements that we hope to overcome in the course of the time.

The Electronic Media Council - the lost impulse

In the last years the Electronic Media Council has formed a number of positive and principled practices that unfortunately have remained in the past. While handling key alerts filed by Musicautor, the Electronic Media Council does not perform a full and objective assessment. This leads to vicious conclusions and solutions to the detriment of the rightholders. The declaration which third parties may provide for granting rights to content they do not own is an example of tendentiousness. For such a problem, the inspection has been terminated with the allegation that the Electronic Media Council is not an investigative body. Only the proactive role of Musicautor to provide certificates from the American society ASCAP and the French society SACEM which rights are

affected has led to a different but not a legitimate outcome. In the particular problems, although 7 months have elapsed till the end of the year from the moment Musicautor has raised the alarm, no mandatory instructions are given to the infringer of the rights and the requirements of the Radio and Television Act and there is still no information on any penalty imposed. We have only got an indication from the Electronic Media Council that a procedure for issuing instructions has been initiated with no clear outcome thereof.

International cooperation

Interaction with sister societies

Musicautor maintains good partnership with foreign sister societies. The association also participated this year in the annual international forums organized by the International Confederation of Societies of Authors and Composers (CISAC) as well as in the international researches in the area of collective management of copyright.

Representation contracts

During the last year the association continued to communicate with foreign companies for the management of copyright for signing representation contracts aiming to expand the repertoire of the association.

Up to date, Musicautor has signed 72 such contracts, thus covering over 95% of the world music repertoire.

European Agency for the Protection of Performing, Producing and Copyright Rights

The proceedings initiated by the European Agency for the Protection of Performing, Producing and Copyright Rights (EAPPPCR) against Musicautor and Prophon before the Commission for the Protection of Competition to prevent, restrict or distort competition on the relevant market and abuse of the dominant position of the latter have been decided in favour of Musicautor.

The Supreme Administrative Court finally denied the request of the EAPPPCR to register at the Ministry of Culture for carrying out collective management of the works types and the legal ways of usage, identical to those of Musicautor, Prophon and Filmautor.

Musicautor raised an additional alarm to the prosecutor's office about suspicion of unauthorized practices on the part of the EAPPPCR related to the undistributed remunerations of the rightholders from previous years collected by the agency within the meaning of the law.

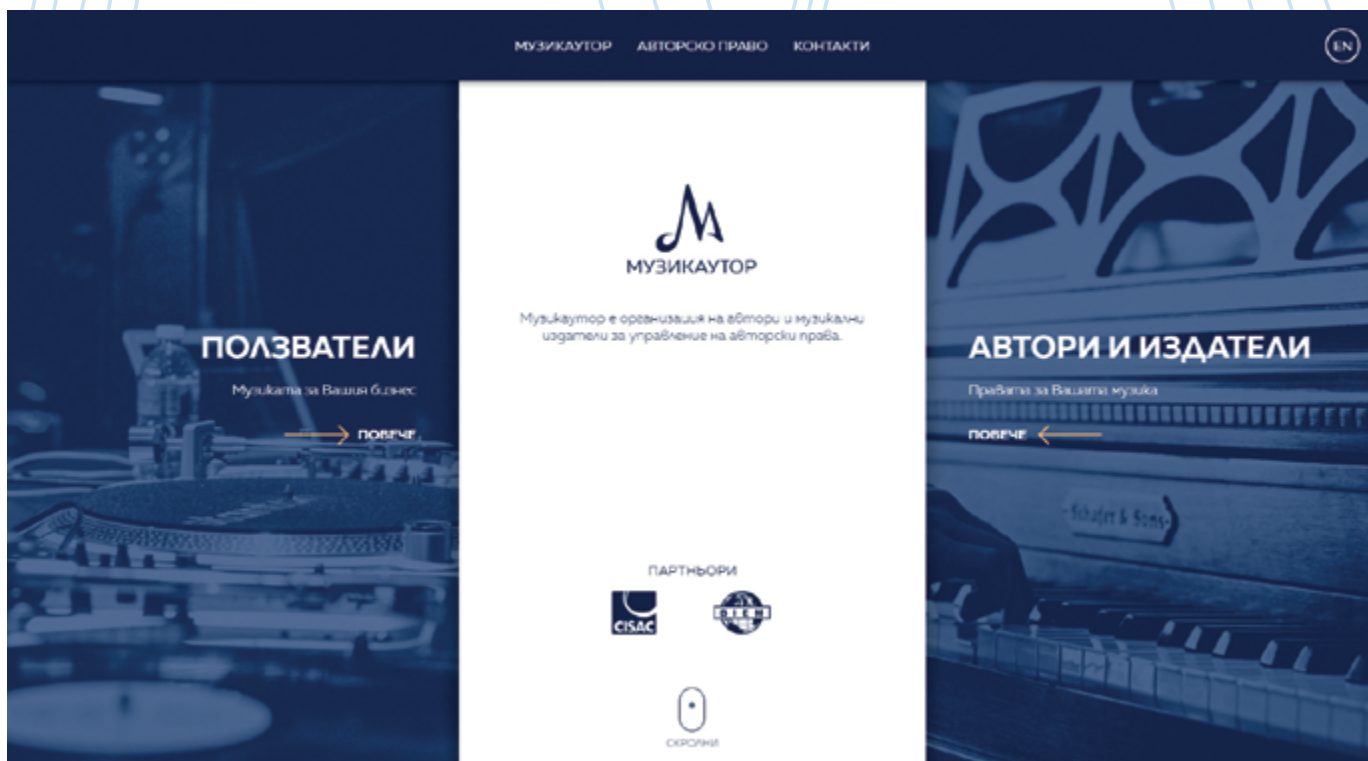
NEW WEBSITE AND NEW LOOK

In 2017, the Company updated its visual identity. Relying on the continuity and tradition it has created:

- ▶ Up-to-date and time-resistant design and code;
- ▶ A new content structure for the site, facilitating as much as possible its use by the two main target groups - members and partners of the organization on one hand and users on the other;
- ▶ Integrated access to all existing systems and online applications designated for site users;
- ▶ Strong focus on news and campaigns;

- ▶ A strong focus on the essence of copyright and a comprehensive section with questions and answers;
- ▶ Adaptability of the site for all types of devices;
- ▶ New logo type and graphic element development;
- ▶ Guide to logo use, animation, etc.

The organization is getting recognized more easily in the last years, and many factors, campaigns and partnerships have contributed to this. In this sense, the investment in its up-to-date vision is mandatory.



THE INTELLECTUAL PROPERTY PROTECTION BRINGS BENEFITS TO EVERYONE



The “Contribution of the Intellectual Property - Opportunities to Bulgaria” was the name of an international conference held on June 8, 2017 at the American University in Blagoevgrad. It has been initiated by Musicautor on the occasion of the 25th anniversary of the establishment of the organization. The Embassy of the United States, the American University and EY Bulgaria have been partners of the event.

The objective of the forum was to focus on the intellectual property (IP) as a product that should generate revenue.

Moreover, its protection is vital for improving the well-being of society, its cultural, economic and social development. It is not a coincidence that the level of IP protection in the country is a reference for attracting investment while Bulgaria, for example, is in the negative List 301 of the US Sales Representative of 2013, which hinders potential investors.

In his presentation, the Managing Director of Musicautor Ivan Dimitrov highlighted the difficulties in the copyright realization in Bulgaria.

These include the informal sector and the piracy of protected content, the lack of administrative capacity to control, the gaps in the law when negotiating tariffs, and the lack of working regulations that can compensate the authors for their products being copied for private use.



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In the context of such issues, according to Desislava Ahladova, the Deputy Minister of Justice, who also participated in the conference, **magistrates also do not have in-depth IP competences. This requires more trainings so that the proceedings are dealt with by people who can adequately and easily work with this matter.**

The participants attending the conference have been welcomed in a video message by Ognian Zlatev, the Head of the Representation of the European Commission in Bulgaria. He informed them about the actions of the EC for a unified digital market and balancing the interests of the rightholders and the users of their works. Ognyan Zlatev said that at present **the efforts of the authors and performers in the digital environment is underestimated and this has to be changed by paying fair remuneration from the platforms.**

Maria Stoyanova – a member of the Electronic Media Council and Dobrina Cheshmedzhieva – a journalist and presenter of Referendum programme at the Bulgarian National Television were the conference moderators.

In the discussion also participated Rumen Dimitrov – the Deputy Minister of Culture, Tonya Hancock from the US Embassy in Bulgaria, Ali Pirzada – the Manager of EY Bulgaria, Assoc. Prof. Dr. Vlada Borisova, the Head of the Creative Industries and Intellectual Property Department at the University of National and World Economy, Milan Mayerovich-Stilinovich – Manager of Communications at the Croatian Society for Collective Management of Copyrights HDS-ZAMP.

Among the attendees were Rozita Elenova – a member of the Electronic Media Council, Aneta Milkova – a member of the Management Board of the Bulgarian National Television, representatives of the Bulgarian Music Association, Bulgarian Association of Music Producers, media, journalists, students etc.

The conference was part of a two-day training of journalists discussing the protection of copyright, which Musicautor organized for the second consecutive year.





COOPERATION WITH THE LOCAL AUTHORITIES AND THE MEDIA



The Municipality of Sandanski and Musicautor signed a Memorandum of Cooperation on June 9, 2017. This happened at a joint press conference called "Art Develops Cities" with the organizer of BG Music Festival which took place at that time in Sandanski.



Musicautor supported the International Pop and Rock Music Festival Sofia 2017

By a decision of the Management Board, funds have been allocated from the Cultural Fund of Musicautor to support carrying out the International Pop and Rock Music Festival Sofia 2017.

This is the biggest international festival in Sofia in support of Bulgarian pop and rock music with a charitable cause. The event was organized on the occasion of the Capital Daycelebration, and the song of Sofia for 2017 was selected for another year.

International Guitar Festival Pleven 2017

The third edition of the International Guitar Festival Pleven 2017 was held from November 29 to December 3, 2017, supported by Musicautor.

Six concert evenings to the widest possible audience were organized within the duration of the Festival with the participation of prominent concert guitarists, laureates of international competitions and guitar teachers, who also led master classes and were jury members in the competition program.

Deyan Kamenov - a member of the Management Board of Musicautor, as part of the jury, handed the special award of Musicautor for the best author's song in the "Guitar and Voice" category.



