



MUSICAUTOR | 2016 | ANNUAL REPORT



CISAC EUROPEAN COMMITTEE FOR THE FIRST TIME IN BULGARIA



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2016 was another zero year in terms of the improvement and upgrading of the legislative framework for copyright protection in Bulgaria

The development of copyright systems is, to a large extent, an indicator of development of the society and state itself.

It was exactly the desire to develop that motivates Musicautor to make enormous efforts in 2016, hosting the annual meeting of CISAC European Committee which was held in April in the city of Sofia. The conduct of this highest forum provided an opportunity to raise the prestige in Bulgaria and to discuss the global trends and good practices in the collective management of copyright. A key document on copyright development was adopted within the committee. More than 100 representatives of over 40 companies supported a declaration to the National Assembly on the need for legislative reforms in the area of private copying in Bulgaria. This need should be included primarily in a systematic analysis of the contribution of the creative and cultural industries as an aspect of the national economy as a whole.

Unfortunately, 2016 was another zero year in terms of the improvement and upgrading of the legislative framework for copyright protection in Bulgaria. The Parliament, on the one hand, refused to accept a bill of Collective Management of Copyright and Related Rights Act which should transport the European Directive applicable to this area. The Ministry of Culture (MC), on the other hand, failed to interfere again, did not make a meaningful analysis of the problems in the sector and showed no political will for legislative initiatives.

The inactivity of the state institutions did not prevent Musicautor from seeking

new forms to promote its values and mission.

During the year, a specialised seminar for journalists was organised and conducted. The genesis of copyright, economic value and logic in their realisation and the basic principles of collective management of rights were clarified in detail at the seminar.

Musicautor continued to actively develop its internship programme. The creation of young specialists with practical point of view is a key stage for positive development of the environment in the future. The Department of Creative Industries and Intellectual Property of the University of National and World Economy recognised the role of Musicautor and the company was awarded for its contribution at a ceremony of the 25th anniversary of the creation of department.

A strong contribution to the development of Bulgarian culture was also made through the next session of the Cultural Fund of Musicautor. The provided funds in the amount of BGN 360,000 are record-breaking since they are much more than the funds allocated by the Ministry of Culture for development of the Bulgarian music. Insofar as such initiatives have national significance and effect, they demonstrate the role which Musicautor wishes and manages to play.

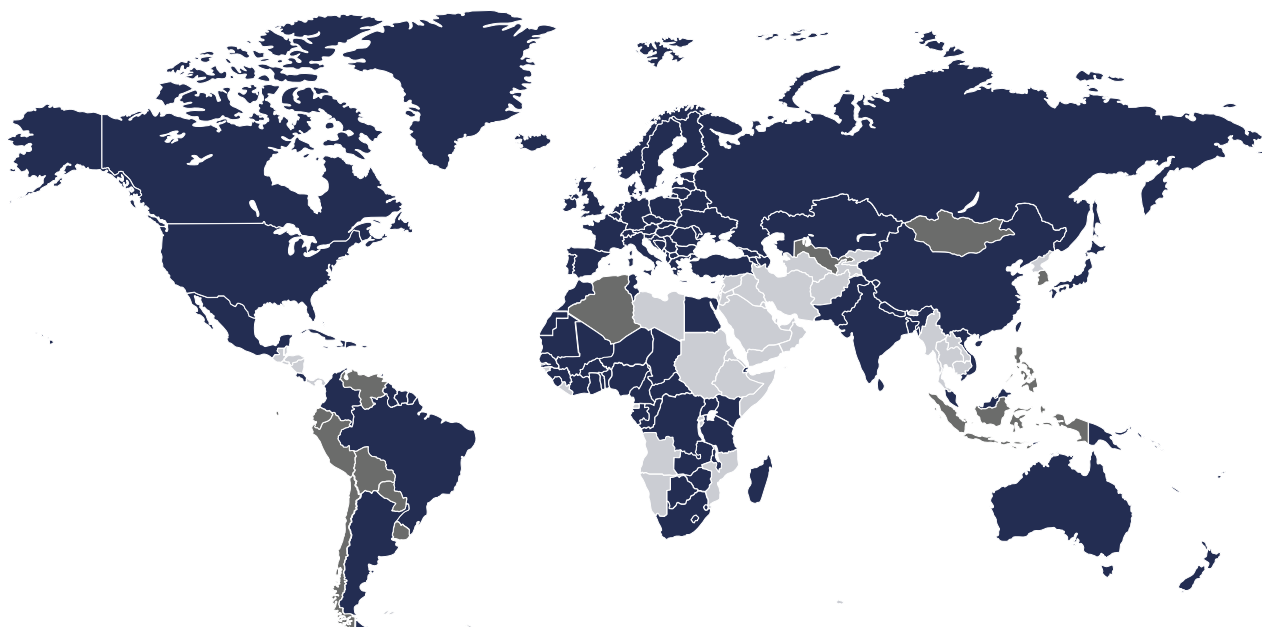
The year was also dynamic in terms of technology. The development of the new distribution software which is expected to be completed in 2017 continued. It will allow for faster and automated processing of the arrays of

information related to the use of the authors' works, while ensuring that the authors and publishers will receive more detailed information on the manners in which their earnings are formed. During the year, earnings from retransmission were allocated for the first time using a specially designed application.

The human resource development policy remained sustainable during the period. The employee training and seminars ensure the creation and maintenance of expert capacity that has the potential to react and adapt to changes in the external environment. The assumption of new competencies and responsibilities by the Musicautor team, along with the standardisation and development of detailed methodology in the licensing processes, are key factors which will contribute to the future sustainable development of Musicautor.

Ivan Dimitrov
Chief Executive Officer

MUSICAUTOR REPRESENTS OVER 95% OF THE WORLD REPERTOIRE FOR BULGARIA



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

① Musicautor

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

Musicautor has more than 2 700 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



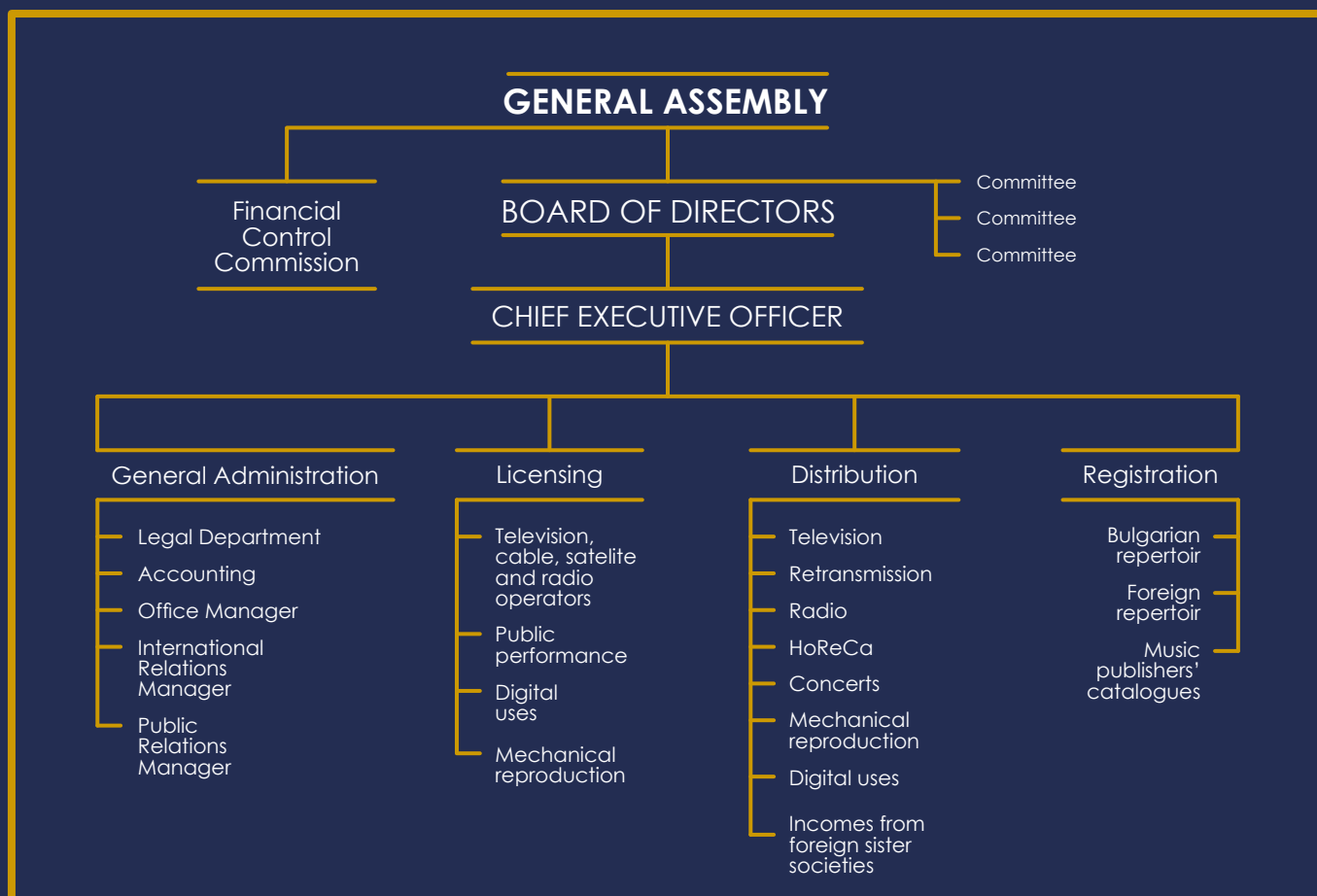
International
Confederation of Societies
of Authors and Composers
(CISAC)



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

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Chief Executive Officer

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

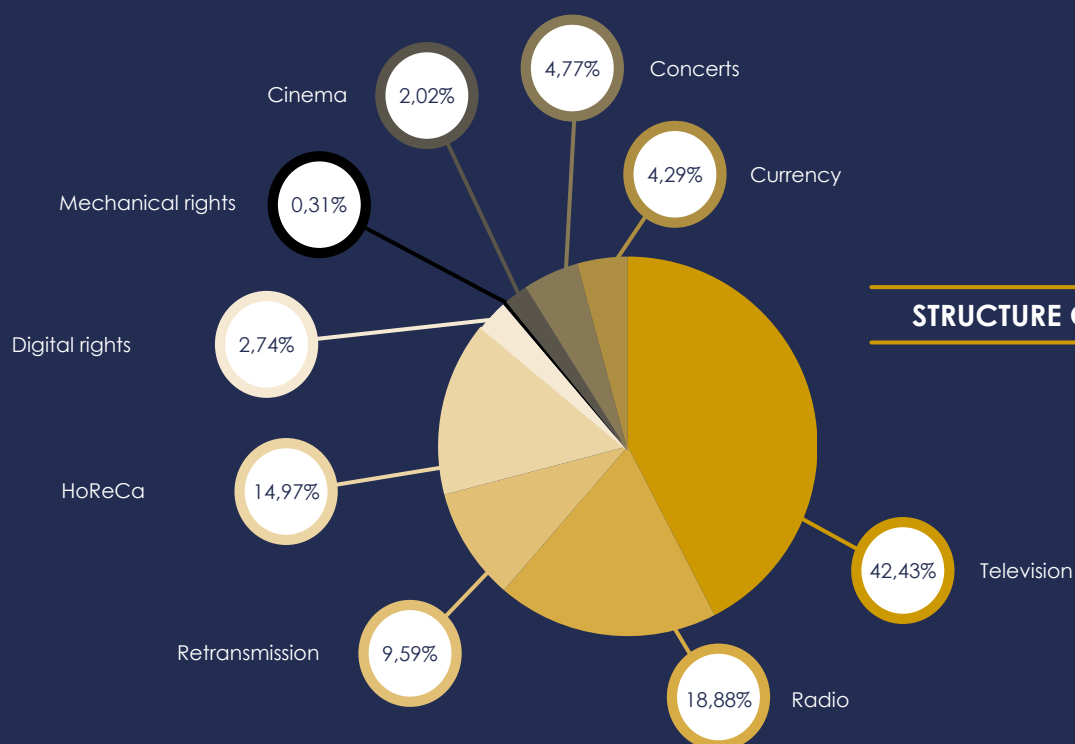
Musicautor promotes and protects authors with the implementation of innovative practices in order to increase the remuneration from the exploitation of their works. We believe that by meeting the current legal, licensing and technological standards in collective management of copyright we will be recognized 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.

INCOMES FROM COPYRIGHT 2016

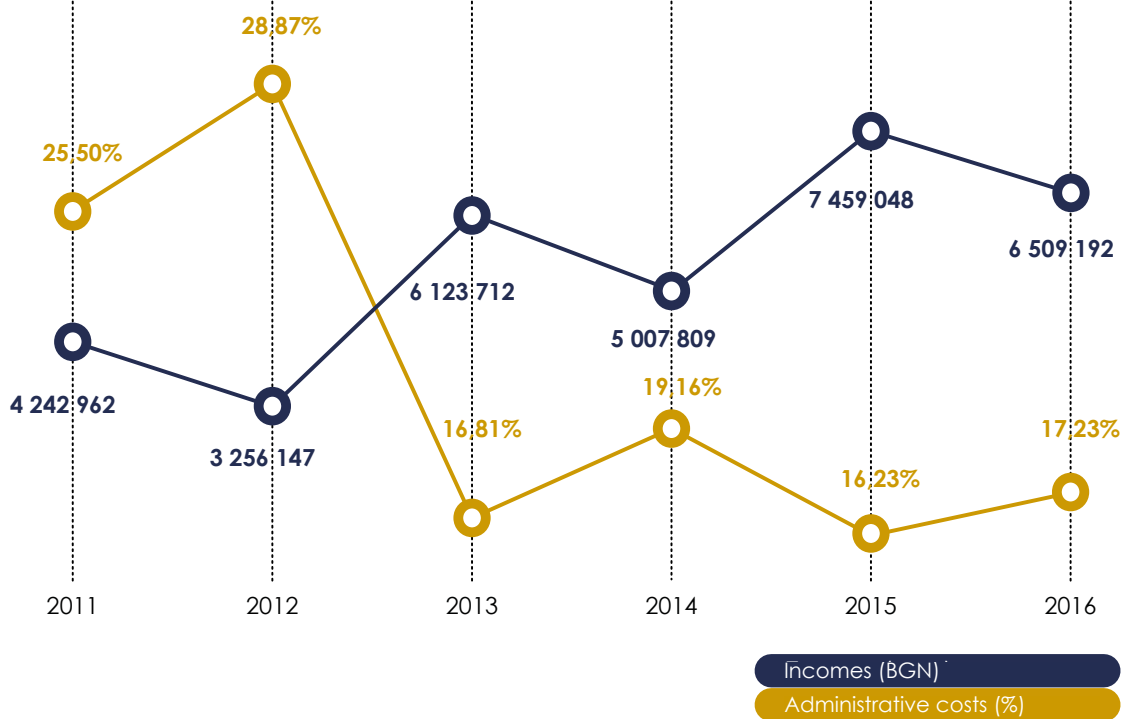
Types of users	Report 2016	% of the forecast	Royalties	For agents	Administrative costs
TELEVISION	2 762 155	93%	2 209 724		552 431
RADIO	1 228 649	57%	982 919		245 730
RETRANSMISSION	624 238	83%	561 814		62 424
HoReCa	974 291	81%	876 862	143 693	97 429
DIGITAL RIGHTS	178 404	119%	160 564		17 840
MECHANICAL RIGHTS	20 053	10%	17 045		3 008
CINEMA	131 626	88%	111 882		19 744
CONCERTS	310 651	89%	248 521		62 130
CURRENCY	279 125	93%	251 213		27 913
TOTAL	6 509 192	79%	5 274 400	146 144	1 088 649

*All amounts are in BGN without VAT
Administrative costs - 17,23%

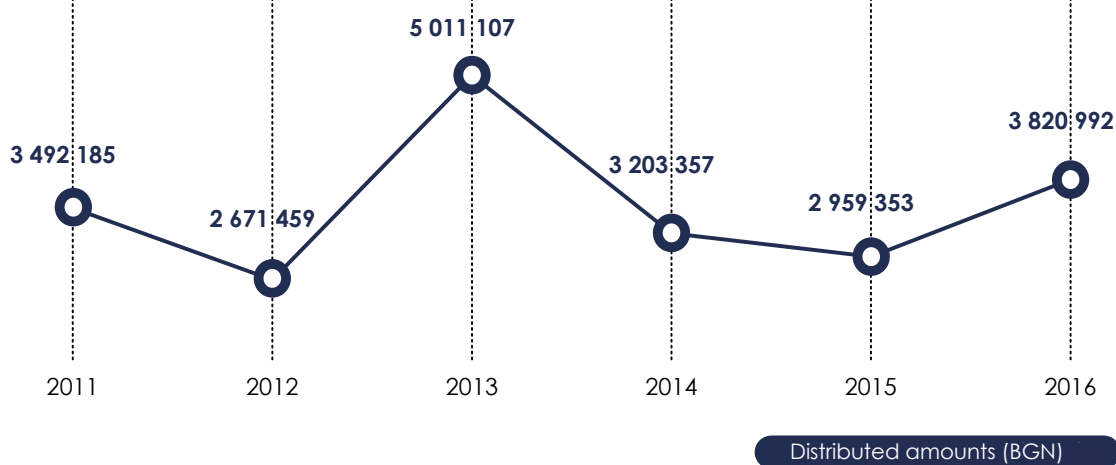
STRUCTURE OF INCOMES



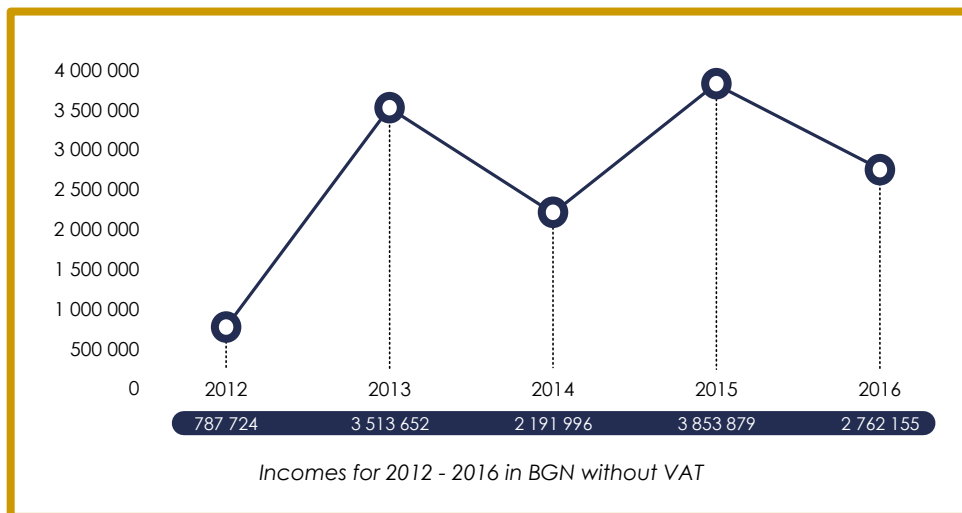
MUSICAUTOR INCOMES FOR 2011 - 2016



DISTRIBUTED ROYALTIES FOR 2011 - 2016



TV LICENSING



Incomes

In 2016 a total sum of 2 762 155 BGN was collected from broadcasters or 92,69% of Budget implementation. It includes BNT, Private etheral TVs, Private satellite and cable TVs.

For comparison, in 2015 the amount collected was 3 853 879 BGN. The decrease of 28.33% for 2016 compared to the previous year is due compensation from BTV for a past period, which had a one-off effect to the income for 2015.

Contracts

In 2016 Musicautor has 44 existing contracts with televisions. During the calendar year 6 new contracts were signed.

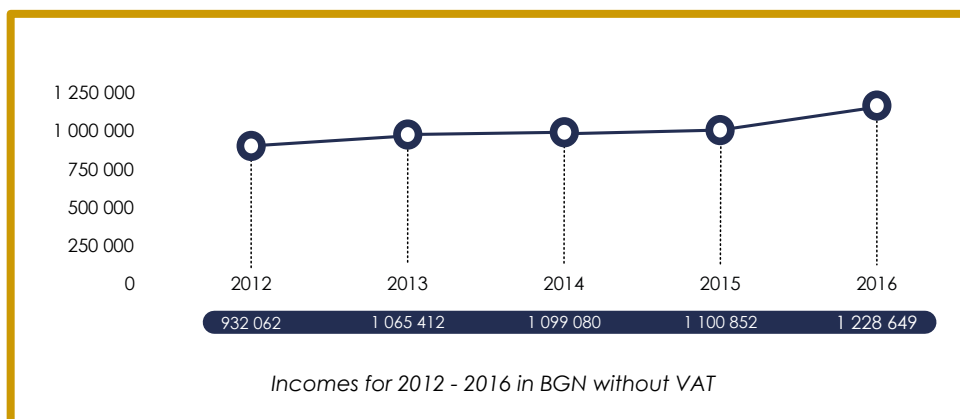
Problem areas

The case TV7. In May 2016, Sofia City Court put into liquidation TV Seven EAD. The date 31 December 2015 was announced as a start date of the bankruptcy. On 3 September 2016, the Council for Electronic Media withdrew the licence of TV7, thus terminating the broadcasting of the media. The huge debts of television, accompanied by the lack of sufficient assets to collateralise them, made Musicautor unable to collect the royalties due for the period 2014 - 2016. Although all possible actions were taken in the bankruptcy proceedings, the amounts due for the copyright in the music used will not be collected and allocated to the right holders. This case is indicative of how an unprofitable and unsecured business project can pose problems for a wide range of suppliers.

During the year, legal actions against Eurocom Bulgaria EOOD, Didi Nick Ltd, TV-Mix Ltd and Studio Media Ltd were taken. Agreements for deferred payment of the debts were concluded with Eurocom - National Cable Television Ltd, Photon - K EOO, ST Zagora EOOD and Atlantic Agency Ltd.

The approval of a new tariff for the televisions continues to be a serious problem in the sector. The main reason thereof is the lack of understanding of the legal procedure which prevents all attempts for revision and update of the applicable rates. To a large extent, these difficulties are expected to be overcome through transposition of Directive 2014/26 / EU on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market, thus restarting the negotiations with the branch organisation currently operating in this area, namely the Association of Bulgarian Broadcasters.

RADIO LICENSING



Incomes

The trend in the radio sector towards concentrating the advertising revenue in large groups, while reducing that of the local radio operators is retained.

In 2016, the sum of 1 228 649 BGN was collected that represents the sum of the revenues, generated by private broadcasting operators and Bulgarian National Radio. For comparison - in 2015, the revenues were 1 100 852 BGN.

Relative to the previous year, revenue growth of radio sector in 2016 is 11,61 %.

In the period under consideration (and in the context of the tariff approved throughout the year) 31 new contracts for the years 2015 and 2016 were signed - 22 of them with old tariff users and 9 of them with new tariff users. Three radio broadcasters terminated their activity.

The slight reduction of the total amounts due for past periods can be considered as a relatively favourable trend in 2016. In this regard, one of the important events during the year was the signing of agreement with BSS Media. As of 1 January 2017, the group complies with the commitments given. Another important event in the sector was the transfer of the licences of Balkan Broadcasting Group (radio programmes Fresh, FM + and Star FM) to Oberon Radio Max.

In 2016, a total amount of BGN 221,841 payable for the previous period was collected. For comparison, in 2015, the amount of BGN 175,771 was collected.

Negotiations with ABB for approval of radio tariff

After nearly two and a half years of negotiations, at the end of 2016, Musicautor and the Association of Bulgarian Broadcasters (ABB) managed to reach an agreement on a new tariff for the radio sector. At the end of 2014 the five-year framework agreement between the two parties and the individual contracts signed with users in the sector ended. In the summer of 2014, Musicautor sent an invitation to the Association on Initiation of Negotiations but the first meeting was held only in November 2014. The lack of tariff during most of the year affected negatively in the short term the society revenue. It is expected that this effect will be partially compensated in 2017.

The agreement for the new tariff was signed by Musicautor and ABB on 1 November 2016 and approved by the Deputy Minister of Culture on 15 November 2016. By the end of the year, the first 9 agreements in relation with the tariff were signed.

The case and relations with Bulgarian National Radio (BNR) in 2016

The negotiations with representatives of the national radio have been conducted periodically from the date of signing of the contract with BNR in 2011. According to the contract signed in 2011, BNR had the right to broadcast up to 40% music content in its programmes against payment of 1% of the received state subsidy (excluding the so-called „target subsidy“ by law) and percentage of the advertising revenue.

Thus, the agreed terms and conditions place BNR in a privileged position in relation to the private media, since the latter pay significantly higher rates based on the approved tariff, and all private radio stations generate revenue of approximately BGN 20,000,000 compared to BNR budget which is BGN 44,000,000.

Separately, over the years, BNR unilaterally increased the percent of the music used without paying any compensation for this.

The lack of balance in the relationships, the need for equality and the desire of Musicator to emancipate its relations with BNR led to the sending of an official invitation for meeting and discussion in early June 2016, immediately after the appointment of the new media management.

By the end of the year, four meetings took place. At the discussions, Musicator proposed to BNR that it should reach the levels of payment of royalties gradually within a period of 5 years, similar to the model used in the private media tariff in the period 2010-2014.

The contract signed with BNR had a revolving clause according to which it should be renewed for a period of one year, if none of the parties terminated it, not later than the end of September of the previous year. It should be noted that Musicator and BNR signed an annex in which they reduced this one-month time limit in order to gain extra time to find a balanced and fair solution of the case. Despite the signing of the annex, however, BNR negotiation team discussed the case formally, without an option to agree on any commitment. In the end, this forced Musicator to give one month notice of termination of the contract according to the annex signed by the parties at the end of September.

It should also be noted that during this period, in the protection of BNR draft budget in the Parliament the radio management did not pay attention to, neither requested on increase of its subsidy due to the need to pay higher and fair royalties to the authors.

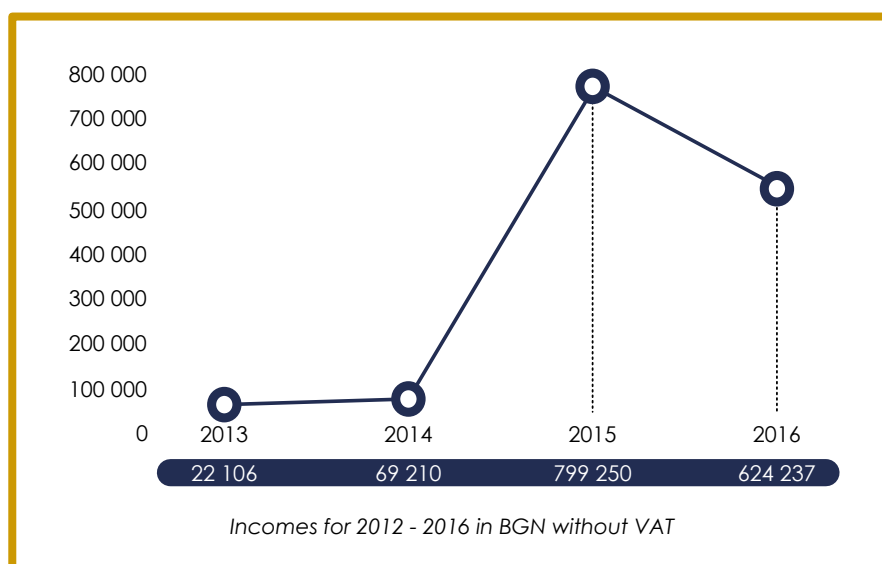
Unfortunately, the inactivity of BNR negotiation team continued after the notice of termination of the contract. For this reason, Musicator symbolically prohibited the radio to broadcast music falling within the society repertoire from the beginning of 2017. This notarial ban is an act which publicly demonstrates that BNR has not received a licence from Musicator, i. e. prior and written authorisation within the meaning of the Copyright and Related Rights Act (CRRA).

BNR made its first proposal on 23 December 2016. Its parameters did not even cover the increased use of music by BNR in the last 5 years. In the days remaining by the end of the year, the written communication between the two organisations increased significantly. Unfortunately, this did not lead to resolution of the problem in a manner acceptable for both of them.

In the beginning of 2017, BNR started a media war, using messages aimed at denominating the significance of the above mentioned facts.

We should mention here the role which the Ministry of Culture played in this case. According to the CRRA, the Ministry of Culture had to approve BNR tariff agreed between the Musicator and ABB in accordance with the requirements of CRRA, Decision No 5169 / 27.07.2013 of Sofia City Administrative Court and the Ministry's instructions for the period 2011-2012 concerning the methods of formation and validation of tariffs. The passive role of the ministry led to lack of time again, irresponsibility and anarchy which further contributed to the unsettlement of the relations between BNR and Musicator.

RETRANSMISSION



In 2016, 17 new contracts with retransmission enterprises were concluded. The total amount of the concluded contracts is 250.

Revenues amounted to 624 237 BGN. For comparison - in 2015 revenues in this direction were 799 250 BGN. The decrease is mainly due to the fact that most of the funds collected in the previous year relate also to a past period, and to the delay in the payments due in 2016 by some companies. The decline is 21.90% compared to 2015.

Percentage performance against planned budget of 700 000 BGN for 2016 is 83.23%.

In the summer of 2016, the first allocation of the amounts collected for 2014 and 2015 of BGN 1,068,063 was made in the sector with the help of specially developed software.

The main difficulties that the sector experienced in 2016 are expected to be experienced in 2017 as well. They stem from the still-existing informal economy in the cable industry. Although contracts with a total of 250 companies have been signed, there are still companies which continue to retransmit music without entering into a contract with Musicautor.

The good cooperation with the Council for Electronic Media (CEM) which started 2 years ago continued in 2016. The monthly communication and actions taken by CEM contribute to the gradual incorporation of the remaining cable operators which have not entered into a contract.

In search of opportunities for equality and reducing the informal economy in the market, in 2016 signals for companies operating without contracts and using illegally musical and music-related literary works of the company repertoire were sent to the Ministry of Culture (MC). The actions taken by the MC were not timely and did not produce any result.

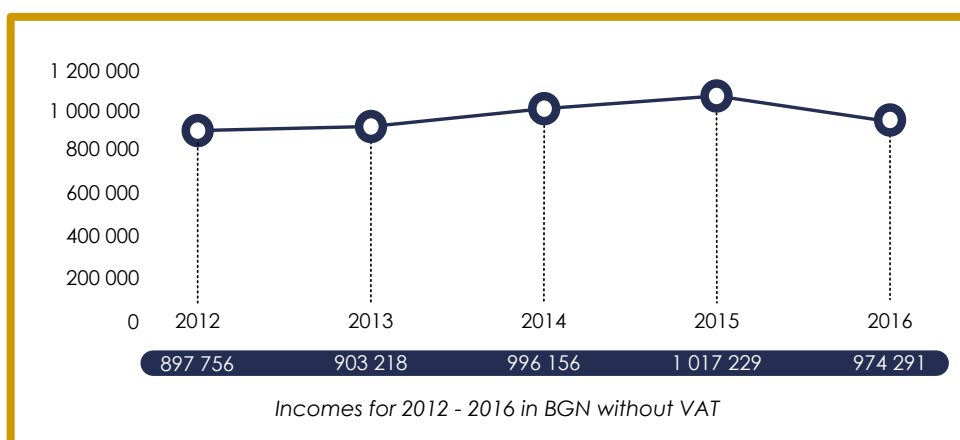
In 2015, public register was established to the Communications Regulation Commission (CRC) in connection with the information on the number of subscribers declared by the companies under Art.33, para.2, cl. 6 of the Electronic Communications Act (ECA). Although official, the register gives clarity only to a certain extent. It enables the establishment of any discrepancy between the number of subscribers announced by the companies in the CRC and that communicated to Musicautor each quarter based on the published data.

The lack of statutory obligation for CRC to control and verify the information declared by the companies in the register results in its formality and gives an opportunity for the informal economy to flourish in the pay-TV market. According to unofficial data, between 30 and 35% of the cable and satellite operator subscribers remain announced. This sectoral problem has many dimensions - it distorts the competition in the industry, creating a competitive advantage for the companies operating in the informal sector, penalises the state which fails to tax this revenue and damages the interests of the authors, insofar as no royalties can be collected for their works.

In 2016, six legal proceedings were initiated - five of them against companies which refused to correct the data submitted to Musicautor after establishment of discrepancies between the number of subscribers and that announced in the CRC register.

PUBLIC PERFORMANCE

HoReCa (tourism and commerce)



The objectives set for the HORECA (hotel, restaurant and catering) sector this year were to extend the coverage of the licensed sites, introducing new brokerage models in the conclusion of contracts and new communication channels, on the one hand, and restructuring and development of the methods to collect arrears, on the other hand.

Musicautor completed and launched the model for collaboration with the so-called corporate mediators - companies providing various types of services which are willing to offer and settle music copyright as part of their business model. In this sense, all accompanying documents were prepared very precisely: award contracts, clear and transparent business rules, strict procedures for the behaviour of the mediators, being representatives of the society. The main elements laid down in the model are efficiency, equality of the mediators and clear performance parameters, compliance with the high standards of communication with the users built over the years on the part of Musiccutsator and with the good commercial practices and respectful and positive attitude towards the partners.

In this context, new model for interaction with the partner organisation Bulgarian Hotel and Restaurant Association (BHRA) was introduced. According to the model, units and representatives of the association should participate more actively in the conclusion of contracts between Musicautor and its members. The first results are a sign of the potential of such joint activity.

To collect the overdue amounts, two approaches were applied. At internal level, dozens of lawsuits were prepared and filed based on orders for payment and then late payments and contractual penalties were collected. The high percentage of successful court proceedings or out-of-court settlements (where the legal expenses have been paid) proves the effectiveness of the model whereby due to internal expertise and efforts amounts due are collected, without using a significant financial resource.

At external level, during the year, research among the largest debt collection companies with international capital and high professional standards in the business was conducted. The initial results of the debt collection companies are encouraging, since the collection of late payments and penalties is contributed, on the one hand, and the status and data of all debtors for several years are updated, on the other hand. The launch and successful co-operation imply more dynamic rhythm and shorter response times in case of delayed payments in the future, thus increasing the percentage of collected overdue amounts. It is important to note that the method of payment applied to these companies was developed based on the remuneration voted by the General Meeting of Musicautor and paid to the mediators, without affecting the budget of the society.

During the year, the partnership with BHRA was developed and upgraded for the first time. It was aimed at the more active participation of the association in the collection of overdue amounts from their members.

In addition to the out-of-court debt collection, one of the debt collection companies was also assigned the task to file lawsuits based on orders for payment to recover some debts. The beginning of the process was extremely successful.

Third approach was also adopted in order to initiate more efficient and low-cost court proceedings. Court proceedings were initiated at regional level - by local law firm, a long-time mediator of Musicautor, which engaged with proceedings initiated in the Bulgarian Black Sea area, thus increasing, in a faster and cheaper way, the area of initiated proceedings with relatively high percentage of efficiency.

The unprecedented number of court proceedings against unreliable HOREKA users which have signed contracts with Musicautor and the differentiation of the performers in conducting these proceedings has put the team to test, but the professional actions and good coordination between

Transport

During the year, letters were handed to all major bus carriers and negotiations with one of their branch organisations - National Association of Bus Transport in Bulgaria (NABTB) - were initiated. After a number of meetings, at the end of the last year, the latest version of the framework agreement was sent with view to its recent signing and launching the licensing process for this business sector. The model of conducting discussions jointly with Prophon was successful and effective, and the users were thus made aware of their obligation to regulate the copyright and related rights at a predictable price.

Public Performance Department and Legal Department led to the establishment of strong system for monitoring and control of the processes and to reduction of the time limits for taking final decision.

Unfortunately, this year was probably the worst one since 2007 in terms of the inspections made by the Ministry of Culture. Besides the fact that the inspections were fewer, they continued several months following the dates on which signals were reported. The percentage of the penal provisions issued and penalties collected on the basis of the few inspections was also unsatisfactory.

This year's tend towards refusal of the users who started to use alternative repertoire to terminate their contracts with Musicautor was retained, while existing users who tried the limited catalogues presented on the market renewed their relationships with the society.

The proceeds from the new contracts and collected debts payable for previous periods have largely compensated for the lack of preventive control by the responsible authority, while the tariff reduced by almost 20 % applicable to the sector, and the amount of collected royalties from commercial and tourist sites for 2016 reached a little over BGN 974,291, excluding VAT, which is a decline of about 4% compared to the previous year.

Theaters

The gaps in the procedure for approval of the royalty rates, namely the lack of properly determined and binding time limits, and the inactivity of the responsible authority - the Ministry of Culture (MC) - have led to frustration of the negotiations on the theatre tariff with the branch organisation appointed by the MC - Bulgarian Association of the Employers in the Field of Culture (BAEFC). A meeting was held during the year. However, a number of invitations were disregarded, and therefore the process did not develop compared to 2015. The moment when the MC, in its capacity as a supporter of the theatres should mediate and control the negotiations with them on the Musicautor tariff is paradoxical.

Cinema

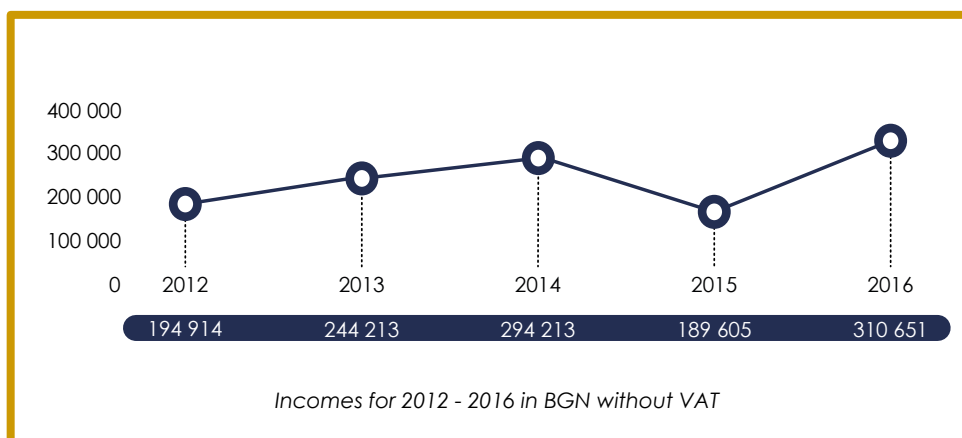
The year was marked by the licensing of part of an entire business sector which had not paid royalties so far, namely the public film screening. After many years of negotiations, Musicautor tariff was changed, and contracts with two of the three major cinemas - Arena and Cine Grand - which had shares exceeding 50% at the cinema exhibition market - were contracted. The development, of course, has its own exceptions. The third cinema chain - Cinema City - did not have positive attitude as regards the settlement of its relations with Musicautor which required various measures to be taken. This was brought to the attention of the Ministry of Culture. It conducted inspections and issued acts of administrative violation, while Musicautor initiated the relevant civil proceedings to obtain the required compensation. Directorate General for Combating Organised Crime was also notified thereof, given the significant revenue generated by the chain and the continuing violation of broadcasting films without regulating the rights in the music contained therein.

Although the Association of Independent Film Exhibitors has committed to sign a framework agreement, no such agreement has been signed and the process should be finalised in 2017.

A key factor for development of this market is the interaction with the National Film Centre. Here we should thank for both the provided information needed to perform our activity and for the adopted procedures on notification of all users that they should settle with Musicautor the rights in the film music.

PUBLIC PERFORMANCE

Concerts



In the past year, Concert Licensing Department continued to systematise the information and to improve the database. Currently, Musicautor has excellent documentation which, along with the new software platform, provides very accurate and complete information on the licensing of concert events and significantly improves the speed of work.

In 2016 concerts sums collected amounted to 310 651 BGN, without VAT. The agreed invoiced amounts are BGN 78,365. The revenue from small and medium-sized users has increased by nearly 25%. Compared to the previous year, the revenue from concert licensing has increased by 39%. Large number of events is covered.

2016 was very dynamic in terms of the concert events - in practice, more events were organised and new organisers appeared.

Some of the large organisers decided to use new model to organise concerts, using services provided by several companies. This allowed them to avoid payments to suppliers, including to Musicautor, in case of any unsuccessful event. This is the case with the company Karma Events EOOD in connection with a concert of the Finnish band Nightwish. In fact, the services of three companies were used to organise the event, while the licence agreement should have been signed with a company that was likely to be deleted from the register or transferred after the end of the event.

The situation with the organiser MOKO SOLUTION which opened a new company for almost every event organised by it is similar.

In connection with the above, signals to the relevant institutions were reported and all possible actions permitted by law were taken.

As regards the two cases, research was conducted to find out who exactly was the real organiser of the concerts. All stakeholders, foreign companies, artists' agents, etc. were informed. These actions are largely due to the fact that during the year Musicautor has invested additional human resources and expertise which have gradually begun to affect the disloyal organisers. This allows for initiation of court proceedings, interaction with Sofia Directorate of Interior and Ministry of Culture, and reporting signals and requesting information from municipalities, sponsors and embassies.

The refusal of the organizer of Bansko Jazz Fest to pay royalties may be given as example. Following an interaction with the US Embassy which is the main sponsor of the event, we were assured that all future events supported by it would be accompanied by evidence that the organiser had settled the copyright in the event.

Another similar practice was observed in the organisation of the tour Eternal Songs of Bulgaria organised by BG Music Company EOOD represented by Vladislav Slavov. The latter, being a representative of the organising company, refused to settle the copyright in the tours held throughout the country. Verifications were made by Sofia Directorate of Interior and Ministry of Culture. Separately, in the final part of the tour, Musicautor notified Bulgarian National Television of the lack of settled copyright in some events included in the tour which were to be held in the National Palace of Culture. The idea of BNT to use the taxpayers' money to shoot and distribute concerts without copyright therein is impossible, insofar as the national television has introduced the practice to require evidence of copyright in the events to be shot.

There is a positive trend in terms of the municipalities, where a significantly higher number of events were licensed throughout the country.

Unfortunately, the extensive practice whereby Bulgarian authors withdraw from their royalties, signing declarations which exempt the organisers from the obligation to pay royalties for specific events continues. Thus, the amounts which Musicautor does not collect in connection with these refusals are approximately BGN 90,000 - BGN 100,000 per year.

Seventy three agreements, one third of which framework ones, have been concluded from the beginning of the year. Currently, the database of Concert Licensing Department contains 422 agreements.

The problem with the royalties which should be collected from the night clubs still remains serious and unresolved. Although Musicautor has entered into agreement with the bigger night clubs, some of them do not submit reports and setlists or state that they are not organisers but only rent the clubs.

An interesting aspect of the Musicautor activity during the year was the participation of the society with its own presentation at an international event concerning the introduction of new practices and the international interaction in the concert organisation. The forum organised by CISAC in Budapest provided an opportunity for exchange of experience, new focus and basis of interaction, especially with regard to promoters who organise concerts in various countries.

In order to facilitate the users, Musicautor developed new information document package, thus simplifying the information and improving the communication.

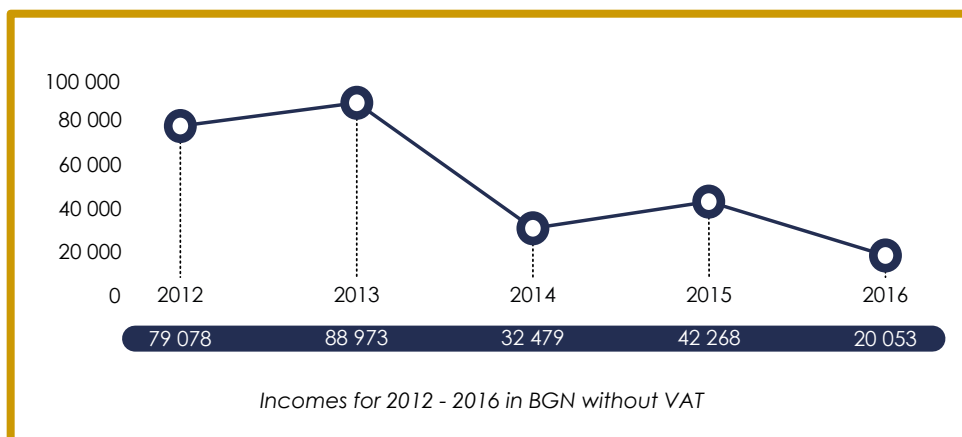


Music copyright information package for concert promoters



Press conference of Musicautor from 1 October 2016 - International Music Day, on the topic „The State - an Accomplice in the Music Business Piracy“. The event provided information on the schemes used by concert organisers to exempt themselves from the obligation to pay for copyright in the music.

MECHANICAL RIGHTS



The most important event for the sector in 2016 is the agreement of tariff with the representative organisation of the producers in Bulgaria - Bulgarian Association of Music Producers (BAMP). The royalties provided for in the tariff are differentiated based on the type of sale (wholesale or retail) and the relevant physical medium (sound media or video media with or without prevailing musical content). Like the other Musicautor tariffs, the tariff provides for discounts for branch organisations which have paid certain royalties to the society within one calendar year. An important role to reach the agreement was played by BIEM. The international organisation strictly monitored and obtained information on the progress of the negotiations.

As a result of the above, at the end of 2016, the negotiations between Musicautor and BAMP which started more than 15 years ago on a local version of the Standard Contract signed between the international organisations where they are members - BIEM and IFPI - have been finalized. The standard contract contains rules for reporting and payment of royalties by users which are members of IFPI national groups, including BAMP, and their mechanical reproduction and distribution fees. These fees are laid down in the new Musicautor tariff for mechanical rights and are equal to the remuneration payable by branch organisations for achieving certain amount of money paid to the society.

In 2016, there was a significant decline in the revenue from mechanical rights. This is due to the trend of the last ten years towards a decline in the physical media sales, on the one hand but, above all, to the termination of the central licensing agreement signed between SDRM (French company for collective management of mechanical copyright) and Universal International Music, on the other hand. According to this agreement, SDRM shall collect royalties for the sale of albums from Universal catalogue on the territory of Bulgaria, and shall then send them to Musicautor, in its capacity as a local society for collective management of rights, for allocation to the relevant foreign right holders.

It is expected that in the next few years the revenue from mechanical rights will increase, mainly as a result of the reached framework agreement with BAMP. These are the biggest users of mechanical rights in Bulgaria and the receipt of current income from them will significantly improve the situation in the sector.

The first two contracts of Musicautor for licensing of music in toys were also signed during the year. The achievements result from a number of meetings with the relevant users clarifying the need for payment of royalties for this type of use.

DIGITAL RIGHTS



In 2016, the royalties for use of digital rights amounted to 178 404 BGN. There is an increase of 7.24% compared to the previous year.

The revenue from mobile ringtones (ringtones, ringback tones, fultrations, etc.) represents 59% of all revenue. In 2016, the largest provider of ringtones for mobile telephones continues to be Telenor EAD. In 2016, contract with the Polish company Ailleron SA which will report and pay the outstanding royalties for Musically - service provided by Mobilitel EAD - was signed. We expect that Ailleron will develop the service, and that the royalties collected for this service will increase in 2017.

The revenue from streaming platforms gradually increases. Larger portion thereof is received by Musicautor in the form of minimum guarantees. In 2016, iTunes paid royalties for the so-called Residual (unrecognised repertoire) for the years 2013 and 2014. The unrecognised repertoire reports should also be processed in order to allow for the allocation of the royalties to the authors. This will become possible after the introduction of the new allocation software.

In 2016, contracts for online televisions and live streaming were signed, the contract signed with Spotify was renewed for two more years, and negotiations with Deezer were launched.

Negotiations with Netflix - international online platform for video and series viewing - were conducted. In the course of the year, however, it became clear that the most appropriate option to license the platform is to sign pan-European contracts with the large companies, since the music used in the films and series is mainly English-American.

In 2016, discussions on the merit with VBOX7 video sharing platform were launched. The main challenge is the direct contracts which the platform concludes with the content uploading partners. Based on them, the producer assigns to VBOX7 the related rights and ensure that they have settled the copyright. For comparison, YouTube copyright is assigned to

societies for collective management of rights. Options to adapt VBOX7 to the world-wide technical requirements applicable to such platforms for copyright management, report generation, detection of content uploaded by end users and downloading of repertoire without settled rights were discussed. In addition, financial parameters for licensing of uploaded music content were also discussed.

Negotiations to renew the contract for return of the management of the mechanical rights in UMP England-American repertoire which is expected to be finalised in 2017 were launched.

In 2016, major part of Musicautor efforts was focused on the processing of reports submitted by the major international platforms. With the help of Octoon distribution software developer four YouTube reports (for the fourth quarter of 2015 and for the first, second and third quarter of 2016) and report of Materlist were processed. As a result, the works introduced to Content ID (YouTube content management system) exceed 11,000. On this basis, Musicautor has started to build database which will be used to process reports of other major digital platforms.

In order to partially automate the process of processing and identification of the international digital platforms reports, the company has prioritised the need to accumulate database where each individual music work will be accompanied by ISRC code of its recordings. The ISRC code is a unique identifier of the sound record and presents in the reports of the large digital platforms. We expect that the building and maintenance of such database will increase the automatic report processing. In this connection, Silvernoise and other smaller aggregators and producers were contacted. As a result, ISRC codes for over 60,000 works were collected. In 2017, application which synchronizes the codes with Musicautor COSIS database is planned to be developed.

Given the volume of reports of the international platforms, the work with BMAT continued. Text processing of Google Play report was conducted.

The terms of reference of the new distribution software of Musicautor provides for module for processing of digital statements, including for work with DDEX and CCID formats.

In 2016, the preparation of new tariff for online televisions began. The process is advanced and especially crucial, in view of the occurrence of increasing number of televisions offering linear services on the Internet.

The changed business model in the recent years, growing importance of the online use, various specificities and strong demand for adequate technological capacity required the restructuring of the department. It is expected that the new expert and logistic unit will improve and optimise the processes in the activity.

INTERACTION

Interaction with the Council for Electronic Media (CEM)

In the recent years, the Council for Electronic Media (CEM) has continued to perform principled and targeted activity in accordance with its competencies stipulated in the Radio and Television Act with regard to the respect of copyright.

Ultimately, namely the understanding of the international law arguments and practices applied by the developed countries gives meaning to the workshop attended by CEM and the Director General of International Confederation of Authors and Composers Societies (CISAC) held in April 2016. The understanding and support of CEM, including through the idea of conducting an information campaign to raise the awareness of the copyright importance, are an indicator of institutionality and constructiveness.

Interaction with the Ministry of Culture

The efforts made by Musicautor to improve the copyright protection and to increase the revenue from copyright often face resistance and inactivity by officials of the state authority which, in general, is at the core of the development and compliance with the copyright. There are numerous facts which demonstrate the passive behaviour and disinterest on the part of the ministry. Some of them are:

- the refusal of the control authority to perform its legal functions regarding the compliance with the procedure for validation of radio tariff applicable to BNR;
- the inefficiency and reduced number of verifications;
- concealing of illegal, inappropriate and non-transparent practices;
- inaction and passivity with regard to the law enforcement and legislative initiative.

Resolution CISAC European Committee on the Private Copying in Bulgaria

The private copying (compensation for free use) is one of the areas where Musicautor focused its attention in the past year. The case is serious, insofar as the Bulgarian and foreign authors have never received their compensations for free use in Bulgaria. The reason thereof is that the existing legislation in the area is inoperable and ineffective.

This issue was discussed in depth at the CISAC European Committee meeting held in Sofia. The delegates of the European Committee unanimously adopted a resolution on the private copying in Bulgaria, calling the competent Bulgarian authorities and in particular the Ministry of Culture and National Assembly to take urgent actions in order to ensure the application of the private copying law and the amended CRRA so as to make the latter applicable and to harmonise it with the European legislation.

Legislative initiative

Bill of the Collective Management of Copyright and Related Rights Act

The working group to the Ministry of Culture developed bill of the Collective Management of Copyright and Related Rights Act based on the EU Directive of 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market. The work on the bill began in 2015 and continued in 2016. Musicautor, the other organisations for collective management of rights, user representatives and independent experts took part in its preparation.

The bill was submitted to the Parliament in March 2016 and was voted at first reading by the Committee on Culture and Media to the National Assembly. Subsequently, without any real grounds thereof, its review was terminated. The fact that Bulgaria runs the risk of being involved in criminal proceedings of the European Commission for the frustration of a publicly debated and coordinated bill on transposition of a European directive is just one side of the coin. The consequences of the other are far more serious, as long as the right holders continue to suffer damage.

International Cooperation


Interaction with Related Companies

In the recent years, Musicautor has built and continues to develop strong business relationships with foreign companies for collective management of rights. The society has gained the position of reliable and loyal partner. Thanks to this, Musicautor relies on support both at operational level and in terms of improvement of the working environment in Bulgaria and development of the copyright system through discussion of problems and acquisition of international experience.

Representation Contracts

In order to expand the repertoire managed by the society and to ensure the representation of its direct members throughout the world, in the past year, Musicautor concluded six contracts with three foreign companies for collective management of rights, namely:

- ACAM (Costa Rica) - two contracts - public performance rights contract and mechanical rights contract;
- AMUS (Bosnia and Herzegovina) - two contracts - public performance rights contract and mechanical rights contract;
- ASSIM (Brazil) - two contracts - public performance rights contract and mechanical rights contract.

A man with dark hair and glasses, wearing a dark suit, light blue shirt, and patterned tie, is speaking at a podium. He is gesturing with his right hand. The background features a large red and white CISAC logo.

„Bulgarian institutions must stand behind and support authors if they want to see a future for creative industries.“

GADI ORON – CISAC DIRECTOR GENERAL



The CISAC European Committee meeting took place on 6-7 April 2016 in the city of Sofia. Such copyright event takes place in Bulgaria for the first time.

Along with the discussion on the global trends in the copyright management, the CISAC Director General Gadi Oron held meetings with the Minister of Culture Vezhdi Rashidov and with the members of the Council for Electronic Media.

The CISAC delegation included also José Jorge Lettria, chairman of the Portuguese company SPAutores and of CISAC European Committee, Mitko Chatalbashev, CISAC regional

director for Europe, Yassen Kozhev, chairman of Musicautor, Ivan Dimitrov, executive director of Musicautor, Mariya Palaurova, executive director of Filmautor, etc. Greeting to the representatives of the authors' societies was given by Malina Edreva - chairwoman of the cultural committee to Sofia Municipal Council.

The delegates of the forum adopted a resolution on the compensations in Bulgaria which should be received by the authors for private copying of their works. Such a mechanism is laid down in the law but has never been applied in practice.



Meeting of CISAC European Committee was held for the first time in Bulgaria. More than 100 representatives of over 40 copyright management organizations from Europe took part in this largest annual forum. Musicautor hosted the forum in partnership with Filmautor.



REGISTRATION

Bulgarian repertoire

	2016	2015
Contracts with new members	90	Authors: 89 Publishers: 1
		119 Authors: 118 Publishers: 1
Sent to IPI database	90	123
Registrations of new works of members	2 821	3 076
New registrations – total	7 892	7 138

Foreign repertoire

	2016	2015
Incoming works from sub publishing repertoire /through CWR format/	1 445 838	1 406 179
New works registered in the database of Musicautor	53 188	36 040
Updated works in the database of Musicautor	152 225	105 048

DISTRIBUTION 2016

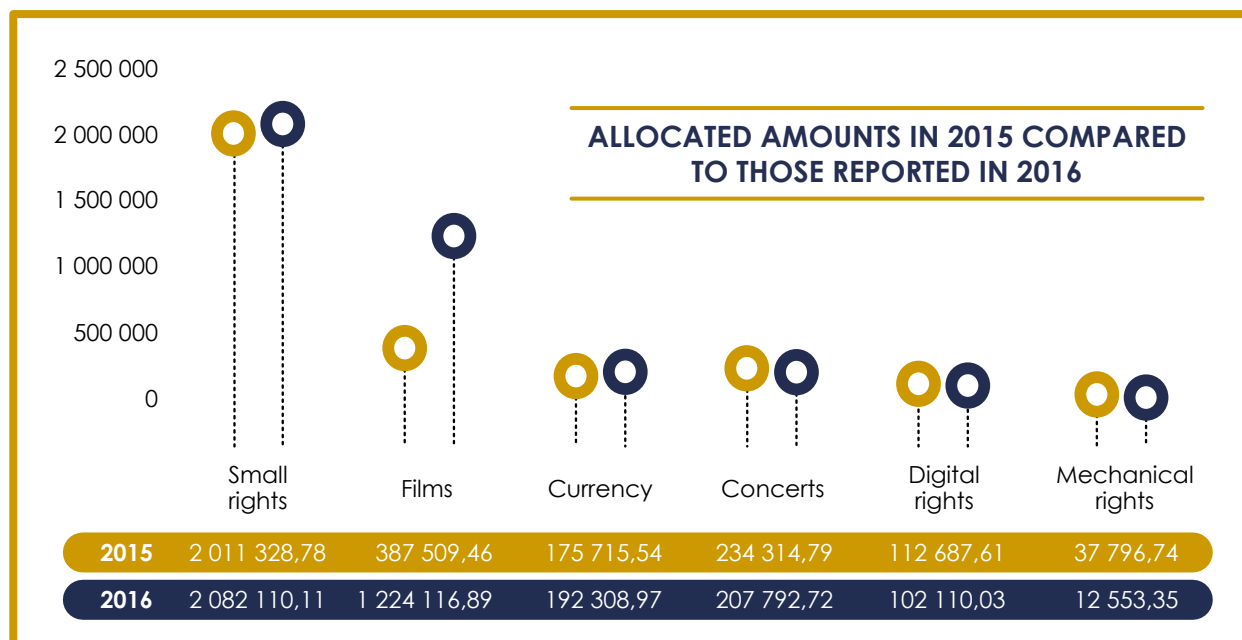
	2016
Finalized distributions of sums on the territory of Republic of Bulgaria	204
Processed reports from users /within the mentioned above distributions/	418
Distributions to sister societies	86 societies
Finalized distributions of royalties for Bulgarian authors from foreign territories	75
Reports processed	715
Distributions from sister societies	28 societies
Distributed amount (NET amount, including dividends)	3 820 992.07

All amounts are net sums, in BGN

TOTAL ALLOCATED AMOUNT: BGN 3,820,992.07

During the calendar year 2016, royalties in an increased amount of BGN 3,820,992.07 or 29.12% were allocated compared to those allocated in 2015. The increased allocated amounts are mainly due to the amounts allocated and paid for film music

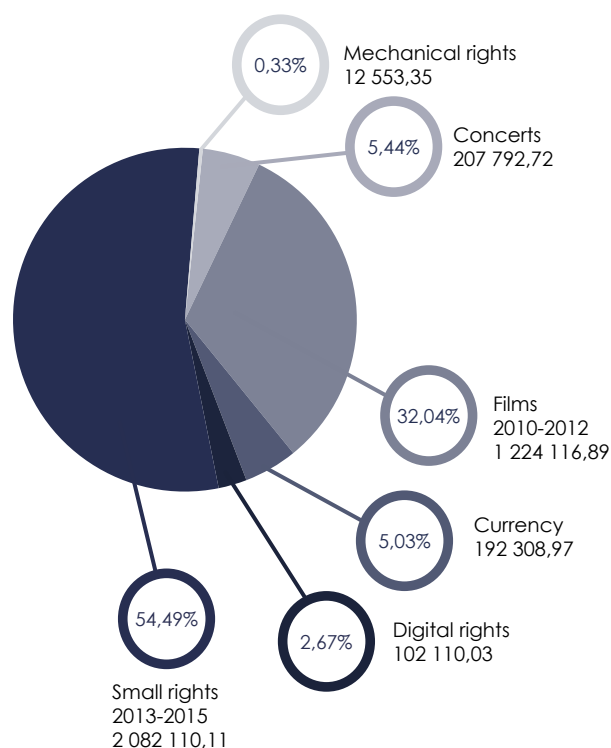
and minor rights and to the increased revenue from the use of Bulgarian repertoire outside the territory of Bulgaria. The allocated earnings from concerts, digital and mechanical rights are reduced compared to those reported in 2015.



All amounts are net sums, in BGN

The main challenge to the allocation of royalties is the trend towards continuous increase of the volume of data that should be processed. Only in the allocation of amounts received from radio and television broadcasting, including film music, 491,893 works involving 231,695 rightholders are processed. Separately, the allocation of amounts obtained from the large digital platforms is a complicated technological process since, with respect to the digital rights, Musicautor manages a highly fragmented repertoire which needs to be recognised in reports containing the full volume of data on each digital platform. The solution of this problem is the introduction of the new software which should be completed in 2017.

SHARE OF ALLOCATIONS TO DIFFERENT CATEGORIES OF CLASSES



RTV: BGN 3 087 776.31

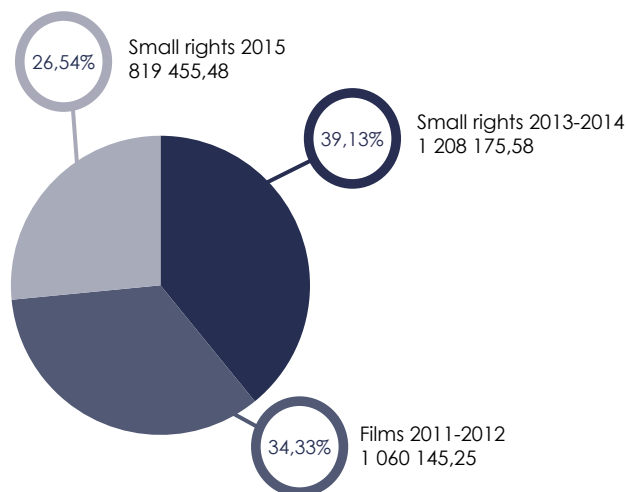
Compared to 2015, 29.12% more royalties are allocated.

Bulgarian Repertoire: The collected royalties for 2015 were promptly allocated. The amount obtained from cable retransmission of Bulgarian radio and television programmes on the territory of Bulgaria according to Art. 19a of the Allocation Rules and the amount paid by bTV for 2013 were added to the allocated amount.

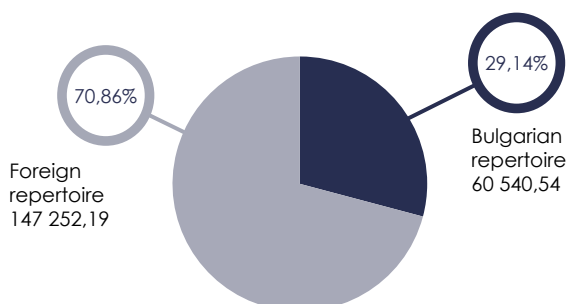
Foreign Repertoire: The distributions BNR 2013, BNT 2014 and Private Radio Stations 2013 were finalised, including the payment from bTV for 2013.

Final allocated amounts for film music: 2011 - private air and cable TV and 2012 - BNT. In 2016, amounts from film screenings in Arena and CineGrand cinemas were paid and allocated for the first time.

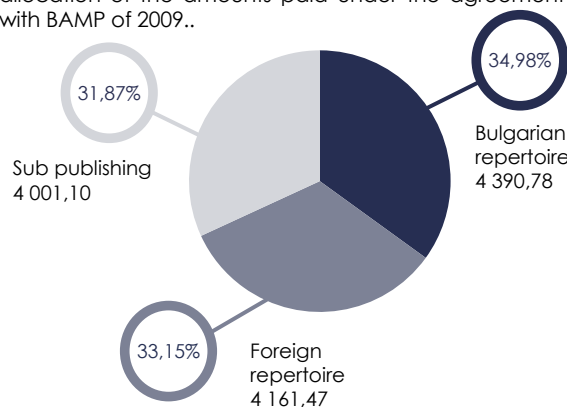
During the accounting period, 10 corrective allocations with recognised works from the lists of unidentified repertoire were made.

**CONCERTS: BGN 207 792.72**

The allocated amount is 12.76% less than that reported in 2015.

**MECHANICAL RIGHTS: 12 553.35 BGN**

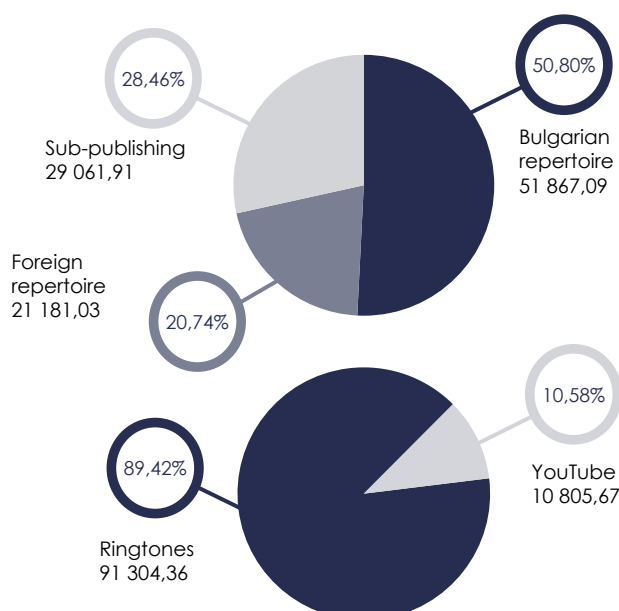
The total allocated amount is BGN 12,553.35, of which the amount of BGN 2,242.88 (17.87%) is allocated under the agreement signed with BAMP of 2009. The significant decrease in the allocated amount is due to a decrease in the proceeds from mechanical rights and to significant decrease in the allocation of the amounts paid under the agreement signed with BAMP of 2009..

**DIGITAL RIGHTS DISTRIBUTION: BGN 102 110.03**

Over the past period, the allocations for the second half of 2015 and first half of 2016 were timely finalised. In addition, an additional amount for a past period was allocated to Telenor EAD. During the accounting period, two allocations of outstanding amounts for the use of digital rights - YouTube 2015-2016 - were made. The allocation of royalties for the use of digital rights has proved to be a difficult task, due to the fragmented repertoire managed by the company and the lack of adequate software to handle the reports of the major digital platforms. All operations related to identification of the repertoire and to the preparation of the allocations were performed by hand.

FROM FOREIGN TERRITORIES: BGN 192 308.97

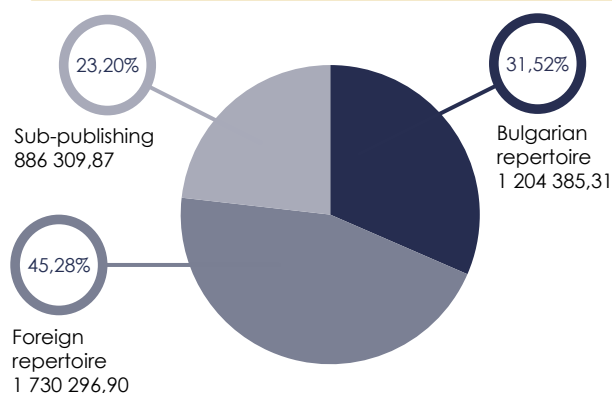
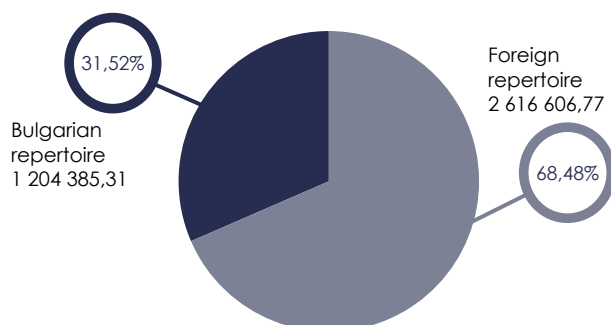
During the past calendar year, the revenue generated from performance of the Bulgarian repertoire increased by 8.63% compared to that reported in 2015.



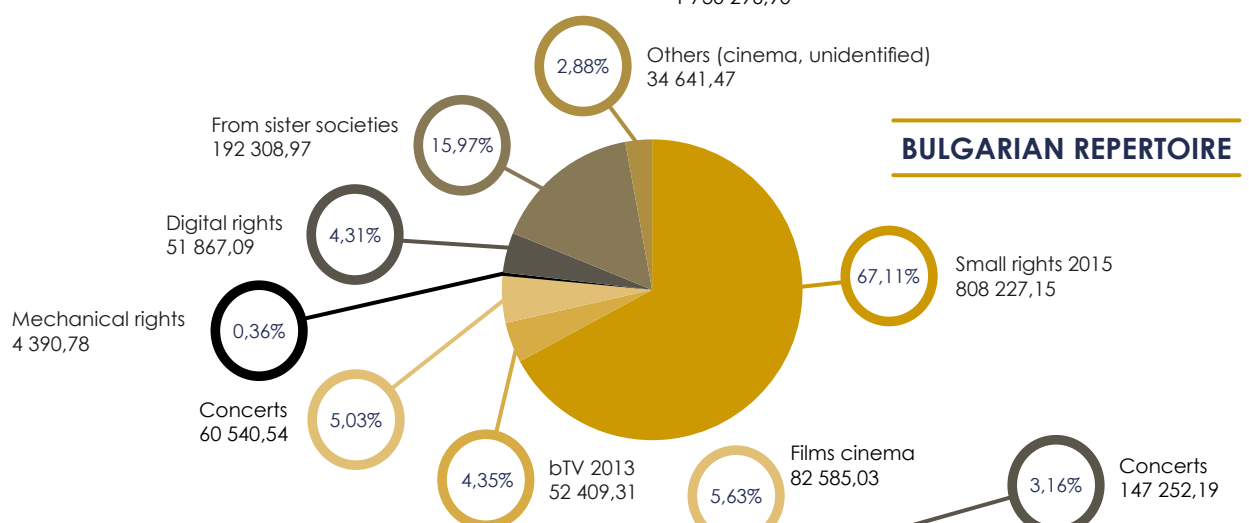
GRAPHIC ANALYSIS OF DISTRIBUTION: BGN 3 820 992,07

Ratio Bulgarian - foreign repertoire

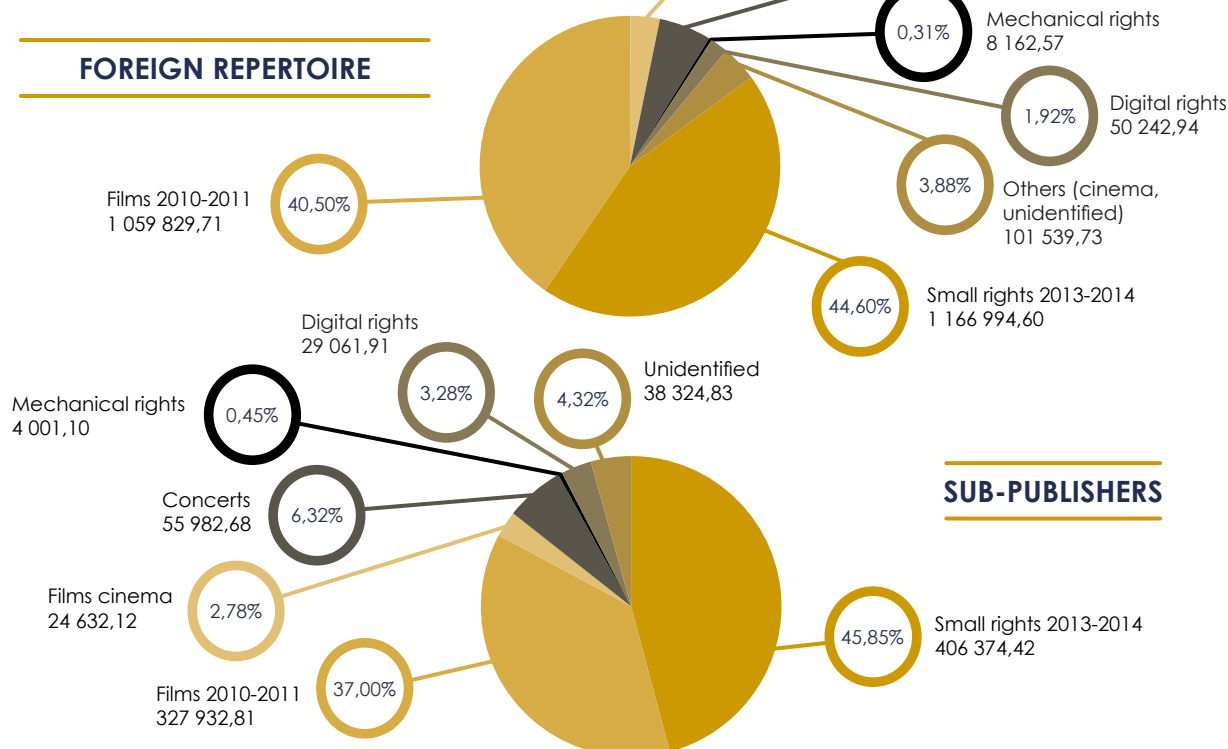
Bulgarian, foreign rightholders and sub-publishers



BULGARIAN REPERTOIRE



FOREIGN REPERTOIRE



SUB-PUBLISHERS

INFORMATION ABOUT THE SOCIETY'S FUNDS - BALANCES, INCOMES AND EXPENSES TO 31.12.2016

No	Programs revenue and expenditure lines:	Social Fund	Cultural Fund	Total:
I	Balance on 01.01.2016	89 595	884 346	973 941
II	Revenues 2016:			
	From distribution small rights 2015	145 896	145 896	291 792
	From distribution bTV 2013	28 017	28 017	56 034
	From distribution GLA 2011	362	362	724
	From distribution GLA after 2011	840	840	1 680
	From distribution small rights 2014 BHT and private radio stations	6 168	6 168	12 336
	Amount paid back to Cultural fund – Erol Ibrahimov		1000	1000
	Re-charging invoice – CISAC-Filmautor		10 000	10 000
	By decision of Board of Directors from 27.06.2016	150 000	150 000	300 000
	Re-charging invoice from CISAC		1 755	1 755
	From distribution GLA 2014, 2015	55	55	110
II	Total revenues:	331 338	344 093	675 431
III	Expenses:			
1	Amounts paid to members (anniversaries and social benefits)	11 800		11 800
2	Amounts paid to members (retirement age)	255 093		255 093
3	Amounts paid to members (promotion of works)		314 124	314 124
4	Amounts paid for Commission meetings		3 460	3 460
5	Amount paid for „Annual meeting of CISAC European Committee“		42 191	42 191
III	Total expenses:	266 893	359 775	626 668
IV	Balance on 31.12.2016 (I+II+III):	154 040	868 664	1 022 704

All amounts are in BGN

What are the projects funded by Musicautor through the Cultural Fund?

AT MUSICAUTOR INITIATIVE

Through the Cultural Fund Musicautor implements, either alone or in partnership with other organisations, projects aimed at both promoting the Bulgarian music and creating normal environment for the work and development of the artists in Bulgaria.

Such a project was the annual meeting of CISAC European Committee held in 2016.

BGN 360,000 FROM MUSICAUTOR CULTURAL FUND

SUPPORTS FOR THE BULGARIAN MUSIC WITH NO EQUIVALENT

An amount of nearly BGN 360,000 was allocated in the 2016 session of Musicautor Cultural Fund. It was used to support projects of 100 Bulgarian authors.

Such support for the development of the music industry in Bulgaria has no equivalence, including at state policy level.

The 2016 session of the Cultural Fund was opened on 7 March 2016. The funds allocated therein amounted to nearly BGN 200,000. 47 projects were ranked. At a meeting held on 27 June 2016, Musicautor Management Board decided to provide an additional amount of BGN 160,000 for partial funding of 53 authors.

All projects were evaluated by professional nine-member committee consisting of well-known Bulgarian authors and music publishers - members of Musicautor.

The purpose of Musicautor Cultural Fund is to encourage the Bulgarian artists to create music. The art promotion is crucial for the company to improve the quality and development of the music industry in Bulgaria.

TARGETED PROJECTS

The Cultural Fund provides funds for financing of large-scale Bulgarian and international projects presented by members of the society and by other natural and legal persons which meet the following criteria:

- The project shall involve Bulgarian authors and Bulgarian works;
- The project shall encourage the development and promotion of the Bulgarian cultural heritage and creativity;
- The project shall be aimed at raising the public awareness of the society and its members.

INDIVIDUAL PROJECTS

Musicautor has provided support to its members in the implementation of their musical projects since 2011.

The projects which could be co-financed are:

- projects for funding of new work (s);
- projects for creation of a work (s).

Musicautor members can submit their projects after a new session for funding by the Cultural Fund has been opened..

COOPERATION FOR DEVELOPMENT OF THE COPYRIGHT IN BULGARIA



Musicautor supported the XXIV-th edition of the Pirin Folk International Author Song and Performing Arts Festival Sandanski 2016. The music forum was supported by more than 50 partners.



In June 2016, Radio Focus launched an initiative to select Bulgarian music for its airplay. Musicautor joined the initiative, mediating this process. Thus the members of the society had the opportunity to share their music with the listeners of the radio.



In 2016, Musicautor participated in a number of international forums and trainings and presented the Bulgarian experience in the collective management of rights and the level of copyright protection in Bulgaria. These included:

- 4 May 2016, Baku, Azerbaijan - CISAC and Azerbaijan Authors Society (AAS) International Conference;
- 26 May 2016, Sofia, National Palace of Culture - International Conference on the Collective Management of Rights in Text and Visual Works organised by IFFRO and REPRO BG;
- 11-12 July 2016, Paris, France - PR training in CISAC;
- 18 November 2016, Budapest, Hungary - CISAC International Conference on Public Performance;
- 22-23 November 2016, Sofia, University of National and World Economy / World Intellectual Property Organisation - seminar on the topic Copyright in the Digital Age.



Musicautor received a letter of gratitude by the University of National and World Economy for its professional and expert contribution to the practical application of the intellectual property.

In 2016, Musicautor joined Student Practices project under Science and Education for Smart Growth Operational Programme and in 2017 the trainees in Musicautor had the opportunity to be trained and to support the activity of the society.

In 2016, Musicautor applied for and was approved to implement an internship under the Youth Employment Scheme of Human Resources Development Operational Programme.





On 21 and 22 July 2016 in the city of Veliko Tarnovo, the team of Musicautor conducted training for journalists on the topic "Copyright, Creative Industries. Economics and Image - Problems and Prospects in Bulgaria".

Such an event was organised for the first time by Musicautor and its purpose was to create better understanding of the authors' problems and of the opportunities to overcome them.

The training was attended by journalists from the national and online media, including from BNT, BNR, Bulgaria on Air TV, Investor.bg, Offnews.bg, Actualno.com, Monitor Newspaper, Duma Newspaper, and by some regional journalists and correspondents of BNR, Radio Veliko Tarnovo, Focus Information Agency and Videosat TV.

The seminar was opened by the chairman of Musicautor Yassen Kozhev who stressed that the Bulgarian creativity could be supported better than now which means that the authors should be better paid. "This will give opportunities to create more interesting and more competitive projects related to all types of creativity. The attention of the audience will become more demanding which will also give feedback to the creators" he said.

The executive director of Musicautor Ivan Dimitrov began his exposé with an example of how the music passion of the former mayor of the town of Kavarna Tsonko Tsonov started to work for an entire economy. The concerts organised by him attract the tourists and encourage the local merchants, and the inclusion of the music industry leads to the revival of this Bulgarian region which is otherwise economically weak.

"This is also specifics of the copyright, since the investments needed to create creative products are significantly smaller than those needed for cultivation of any other industry," explained Ivan Dimitrov. This means that the investments in the creative industries are cheaper and at the same time much more profitable.

Despite the contribution of the creative industries to the development of the economy (in Europe they form nearly 4% of the GDP), in Bulgaria they are not appreciated. Data from a report prepared by the International Confederation of Authors and Composers Societies - CISAC was presented.

According to it, in 2014, 0.049% royalties of the GDP were collected in Europe. The rate for Africa is 0.008%. "Bulgaria is not included in the international statistics, but our calculations show that we approach the levels of Africa," said Ivan Dimitrov.

He pointed out that in many cases the problems have structural nature and can be resolved, as long as there is a political will to do so. Ivan Dimitrov appealed to the Bulgarian institutions to develop a strategy for development of the creative industries in order to encourage the economy and creative process.

During the training Momchil Daskalov - manager of Public Licensing Department of Musicautor made a presentation entitled "The Music - Property and Product". He explained the main differences between the copyright and related rights and between the types of work users.

Momchil Daskalov gave examples of the misunderstanding of the subject by both the public and court which makes contradictory decisions on similar cases. The presentation showed that the court decisions do not encourage the settlement of rights, since the imposed sanctions are often lower than the royalties due.

MUSICAUTOR CONDUCTED TRAINING FOR JOURNALISTS FOR THE FIRST TIME

IN MEMORIAM

In memory of colleagues and friends
with whom we parted in 2016

Aleksandar Brazitsov

Aleksandar Yosifov

Vasil Parmakov

Vasil Stanilov

Evtim Evtimov

Lyubka Rondova

Romanyola Miroslavova





WHEN | YOU | INVEST | MUSIC
