

ANNUAL REPORT STEF

Report of Managing Director and Board of STEF *regarding last year's operations*

Presented to the Annual General Meeting of STEF on May 7, 2016

Address of the Managing Director

Dear colleagues.

In this address, I wish to make the image of STEF my topic. When I first started working for STEF the mantra was frequently recited that the day the clients would be satisfied with STEF, the society was sure to be doing something wrong. I think it is safe to say that a lot of time has passed since then. Over the past years, the staff members of STEF have systematically worked at improving interactions with our clients and, at the same time, improving the image of STEF. The guiding light of that work has been to show our clients how much value is involved in the use of music for their operation. This work has been very successful although there is still a lot to be achieved. We do know, however, that we are on the right way, because collection that is based on threat can never be the foundation of a long-term business connection, as it must be built on mutual trust and respect. Such trust becomes constantly more important for societies such as STEF, as competition from music banks in the background music market has done a lot of harm to right holders' associations in our neighbouring countries, and it is only a matter of time when they arrive for real on the Icelandic market. Clients who do not trust their suppliers and do not know the value of the product, are much more price sensitive than otherwise, or in other words, they do not have much price elasticity. Strong, positive, and solid relations with clients are the prerequisites for their contributing to beneficial word-of-mouth to others, and being prepared to maintain regular business associations, and even increase them, despite other options on the market.

A study, made by graduate students in marketing at Reykjavík University at the beginning of this year, on image and the price elasticity of clients who run retail outlets, revealed some interesting points.

- 83% of questioned claimed they played music in their stores
- 61% considered the music to have a positive effect on the buying behaviour of the clients
- 80% believed the music to have a positive effect on the working atmosphere
- 34% thought that the image of STEF was not good. 53% neither nor and 12% that it was positive

The study also revealed that 71% of the shop owners were ready to pay a higher price for a better selection of music, which means that the quality of the product is of more importance than the price, up to a certain extent, at least. This reveals clearly how important it is to continue

informing the clients about the value of the product that we sell and it also encourages us to keep on working at improving the image of STEF.

Reykjavík, May 19, 2017

Guðrún Björk Bjarnadóttir

Review of the Board's Work from May 2015 to May 2016

Members of the Board of STEF in the past operating year:

Jakob Frímánn Magnússon, Chairman
Kjartan Ólafsson, Vice Chairman
Þórunn Gréta Sigurðardóttir
Óttarr Ó. Proppé
Sigurður Flosason
Atli Heimir Sveinsson
Bragi Valdimar Skúlason

Substitutes of the Board were Ólafur Arnalds, Margrét Kristín Sigurðardóttir, Sóley Stefánsdóttir, Gunnar Andreas Kristinsson, Bragi Valdimar Skúlason (served both as a Board Member and a Substitute at the same time) and Þuríður Jónsdóttir.

A total of 8 Board Meetings were held in the operating year.

An open meeting was held for the members of STEF and other interested people on June 1, 2016 where the financial statement and the annual report of the previous operating year were presented.

An extraordinary meeting of the representative body of STEF was held on December 16, 2016. At the meeting, the distributions of STEF in the year were reviewed and a motion was made to change the distribution rules of the association, as regards distributions for the first performances of works. The change was approved. The Sales- and Marketing Manager of STEF, Hrafnkell Pálmarrsson, presented changes in the price list of STEF.

The STEF medal of honour was awarded to Þórhallur Sigurðsson (Laddi) in the operating year. It was awarded at his 70 years Anniversary Concert in Harpa on January 21, 2017.

In the operating year, or at the end of June 2016, the Board approved special regulations on awarding Board grants.

At the end of the year 2016, the number of registered works at STEF was 75.938 and they increased by 3.522 in the year. The number of registered authors at the end of the operating year was 6.767.

Main Projects in the Operating Year

Price Changes etc.

The biggest project in the operating year involved working at changes in the price list of STEF which the Copyright Act changes in March 2016 enabled. More specifically, the approval of the Ministry of Education, Science and Culture is no longer required for making price list changes and, therefore, STEF has more freedom than before in product price development. The price list of STEF had been unchanged (apart from price index increases) since the year 1993. It is safe to say that the price list had been very opaque and difficult to work with, both for clients and staff members. At the same time, the value of music has increased considerably and the use of music skyrocketed. There is a great deal of data available today on the value of music e.g. for restaurants and especially that of live music.

The work on price list changes began with a workshop at Hótel Glymur with staff members and Board representatives, as well as an outside consultant. The starting point was to make the new price list fulfil the conditions to be simple, self-consistent, Navision user-friendly, readable for clients and accessible and suitable for self-service. It should also reflect the value of the product and be reasonable and independent of technical changes, to the extent possible.

In the fall of 2016, the Board approved the first changes of the price list which regarded prices for restaurants, in addition to changes in price calculations that are currently decided by the permissible number of restaurant guests, instead of the number of chairs, which is a much more transparent method and more efficient in execution. At the same time, the price list's categories were cut down considerably and redefined. The first pay slip with the new prices was sent out in December with a due date in January. In addition, a change was also approved on an office procedure policy regarding a quantity discount for big concerts.

When these changes were implemented, STEF began to offer monthly payments, which many clients find more convenient, and started to receive payments with credit cards.

Concurrent with the implementation of these changes, a new website was made for the society, or more precisely, it was remade to a great extent. The main emphasis was placed on improving its user interface and on making the website suitable for smart phones. One part of increasing the service to clients was to add a calculator to the website to enable them to see how high their license fee is.

These changes were made in cooperation with both SAF (The Icelandic Travel Industry Association) and SVP (Federation of Trade & Services). Changes regarding concerts were made in collaboration with BÍT (Federation of Icelandic Concert Holders). At all stages of the process there was very close cooperation with SFH (The Association of Performers and Record Producers) as it concerns clients who also make payments to SFH and all price list changes of STEF also affect the price list of SFH.

STEF also enjoyed the collaboration of marketing specialists in implementing price list changes for restaurants. They assisted in putting up flyers for restaurants introducing the pending changes. The implementation of the changes was generally successful although naturally some clients had contact to have their affairs specifically considered.

Another phase in the price list changes, i.e. price for retail outlets, was approved by the Board in December 2016. The price list was greatly simplified in the sense that one base rate was made for retail outlets of 100 m² or smaller and then a standard price for each square meter beyond that. At making the decision regarding the price increase, consideration was taken to a study made for STEF by graduate students in marketing at Reykjavík University. It was decided that new prices would take effect for all new clients as from the beginning of the year 2017. As regards older clients, it was decided that the pay slip which is sent out in the spring would have the new prices. At the implementation of that change, the advertisement agency Pipar assisted in making a flyer which was sent to clients to introduce the change. With the flyer, a complimentary ticket was sent for the morning meeting of Sena “Good Experience – Future Business” which centered on the use of music in marketing for retail outlets.

Concurrent to the work on these price changes, the implementation of the new sales system from Navision has also been in process. The staff members of STEF, who deal with the sales aspect of the operation, have therefore been under considerable pressure and we are very grateful to them for the good work, patience and positivity they have shown throughout this process.

As technical changes are under discussion, it is in order to mention the information in electronic statements that members can access in My sites and which have become more precise than before. They enable the user to see more clearly the origin of payments, both regarding the radio station where the song in question was played and also a more detailed classification of foreign payments.

Various Events

Culture Night

STEF held a concert in glorious weather on Culture Night in the back yard at Laufásvegur 40. The attendance was good and the performers were Ólöf Arnalds, Snorri Helgason, Lára Rúnarsdóttir, and Júníus Meyvant. This is the third time that a concert is held on this occasion.

The Meeting of the People

STEF held two events in collaboration with other copyright societies in Iceland at the Meeting of the People which was held on September 2 – 3, 2016. One of the meetings was titled “The Cassette Fee – the Future of Copyright” which was attended by representatives of six political parties, in addition to representatives of four copyright societies, in order to discuss matters. The other meeting was presented by the name “Living off Art” and was more intended for the general public. Gunnar and Felix performed short acts, which were related to this topic, and they interviewed representatives of the various creative branches on what copyright means to them personally. Both meetings were well attended and successful.

Workshops on Collaboration with Musical Consultants

Two workshops were held on November 2, 2016 in association with ÚTÓN on the collaboration with musical consultants. This time the workshops were attended by five foreign parties who arrived specially to the country for this occasion. They were Tommi Tuomainen, music publisher from Elements Music in Finland, Stacy Slater, musical consultant from The Talent House in Los Angeles, Alex Hancock, free-lance agent and musical consultant from the UK, Edna Letchetero, musical consultant from Big dipper in the UK, and Amine Ramer, musical consultant from Stetes of Sound in Los Angeles. There was greater demand for attendance than supply as these workshops have been successful in the previous years. This was the fourth time such workshops have been held.

Day of Icelandic Music

The Day of Icelandic Music was celebrated in Harpa on December 1, 2016. On that occasion three Icelandic songs were sung and broadcast live on all the biggest radio stations in the country. The honorary acknowledgement “Little Bird” was this time awarded to Svanhildur Jakobsdóttir.

Music on Radio Stations

STEF held an event in cooperation with RÚV and 365 on January 19, 2017, where Matthías Már Magnússon and Rúnar Róbertsson discussed the best way to present music to radio stations. The meeting was so well attended that there was not enough room for everyone. There were some discussions on the access of women to these media, and the combination of the music council of Bylgjan was e.g. criticised for consisting entirely of men. Attendees were very satisfied with the meeting.

The Icelandic Music Awards

STEF, in cooperation with SFH, sponsored the Icelandic Music Awards which were given in Harpa on March 2, 2017. It is safe to say that Emmsé Gauti was the prize-winner of the night as he received five awards. The Icelandic Opera received three awards in the category of classical and contemporary music, for its production of *Évgení Onegin* by Tchaikovsky, and Þorgrímur Jónsson received two awards in the category of jazz and blues music.

Electronic Marketing of Music

On March 7, 2017, STEF held an event at Kex with FHF (the Association of Record Labels) and ÚTÓN (the Iceland Music Export) with Colleen Theis – Chief Operating Officer at the Orchard, María Rut Reynisdóttir, Agent, and Eiður Arnarsson, Managing Director of FHF. The meeting was streamed on Facebook live. More than 70 people attended the meeting and the broadcast has been streamed more than 250 times.

STEF Meets Musicians in Akureyri

On April 19, 2017, STEF held an event at Hof in Akureyri, entitled the above. In addition to a general presentation of STEF, Atli Örvarsson, Film Score Composer, and Þorvaldur Bjarni Þorvaldsson, Musical Director of the Akureyri Culture Association, gave lectures. The meeting was well attended and obvious that there is a great demand for further events held by STEF in regional Iceland.

The Icelandic Musical Spring Awakening – New Ways of Supporting Record Label

STEF held an event on May 2, 2017, where Erna Jónsdóttir, Legal Counsel at the Ministry of Industries and Innovation, presented the partial repayment of recording expenses, and Eiður Arnarsson presented a new fund for sound data, sponsored by Rannís. Þórir Jóhannsson, Managing Director of Stúdíó Sýrland, also gave a lecture.

The Langspil award

The Langspil award was presented for the third time at a ceremony held the May 16, 2017. Barði Jóhannsson received the award which is given to a composer who has, according to STEF excelled in the field during the previous year. The trophy is an Icelandic string instrument (*langspil*) specially made by Jón Sigurðsson at Þingeyri.

The Composer Fund of RÚV and STEF Established

On April 3, 2017, the charter of a new fund was signed, the Composer Fund of RÚV and STEF. The new fund replaces two older funds, The Composer Fund of RÚV, which has been in the safe-keeping of the State Radio and the Composer Fund of Channel 2, which has been in the safe-keeping of STEF. The object of the fund is to promote primary creations and the distribution of Icelandic music, by e.g. financially backing authors for compositions and comprehensive works. Thus, the parties who sponsor the fund, wish to further musical life in the country. The fund is financed with a contribution from RÚV and with part of the copyright payments RÚV makes. It is anticipated that the fund will support about 45 projects a year and that approximately 25 million ISK will be distributed annually. At the distribution, ambitious and comprehensive projects are made a priority. The objective of the fund is also to give financial support to innovative compositions for their performance in the RÚV media.

The management of the fund consists of three members: The Director General of RÚV, in addition to parties from the Icelandic Society of Authors and Composers, and also from the Icelandic Composers Society. STEF appoints the two latter members. Distributions from the fund are made three times a year and the first distribution of the merger fund takes place in May.

Copyright Issues

Implementing Directive of Copyright Administration Services

In the operating year, STEF has closely followed the procedure of implementing EU Directives on copyright administration services, which will have considerable impact on STEF. The Directive was to be implemented before April 16 in the EU member countries, but it has not yet been implemented into the EEA agreement, with the approval of the common EEA committee. It will most likely be done in the next days and the plan is to present a bill to Parliament in the fall of 2017. It is apparent that the Directive will carry the impact that both STEF resolutions, distribution rules, authority and statements of STEF must be reviewed, as well as the information that the association publishes officially on its website, as the Directive puts a great deal of obligations on right holders associations, regarding information and transparency, in addition to obligations regarding internal structure and democratic participation of members. At the General Meeting of

the Representative Body, in May 2017, the European committee is expected to present its first ideas regarding the changes in STEF's resolutions and that fully-fledged amendments proposals be then presented to the General Meeting of the Representative Body in 2018 for resolution.

Private Copying

Income from IHM- The Collecting Society, has, throughout the years, been an important source of income for STEF. The income is, on the one hand, from private copying, and, on the other, from television broadcasting. It is a pleasure to recount that on October 11, 2016, a bill was passed to make changes of the Copyright Act on payments to right holders for private copying. This has been a great issue for STEF for many years, as the income base of the fee has not followed technical changes for far too long. The collection of these payments has changed in such a way, that instead of imposing customs on the product line related to private copying, the payment is now in the form of compensation to right holders, directly from the state treasury, and is on the national budget. It is estimated that an annual payment will amount to approximately ISK 250 million and that the amount shall be assessed every three years by a complaints board and paid to the societies which have the approval of the ministry to carry such rights. The amount of the payment for the year 2016 is still unclear, as a disagreement arose over the interpretation of the new laws towards the Ministry of Finance which handles the payment of the compensation.

Temporary Repayments for Musical Recording

A bill on temporary repayments for musical recordings was also passed as law from the Althing on October 11, 2016. The law came into effect at the turn of the year. The law guarantees a repayment to the record labels amounting to 25% of the recording cost. There will be no assessment of the project as it is simply viable for the repayment if it fulfils the conditions of the law.

Copyright Policy

Work at making a copyright policy has started at the Ministry of Culture and Education. Last year, an intellectual property policy was published on behalf of the Ministry of Industries and Innovation which did not include a discussion on copyright, or cover creative subjects, but only copyright in the field of industry. It had been the intention ever since the year 2014, that the Ministry of Culture and Education would include a chapter on copyright in this policy, but it failed. The Board of STEF has issued its emphases regarding this work which stresses the society's yearlong issue to have copyright revenue taxed as capital income tax.

Measures Against Illegal Distribution of Music on the Internet

In last year's Annual Report there was an overview of measures directed against the websites Deildu.net and Pirate Bay. As these matters are not fully over yet, it is inevitable to review what was gained in the year. The former round concerning these matters started with the decision of the District Magistrate to issue a writ of injunction in 2013 against the telecommunications companies Síminn, Vodafone, Hringdu, and 365. It ended with a ruling of Reykjavík Supreme Court in October 2014, but in the meantime the case had been moved to the Supreme Court because of a motion for dismissal. Pursuant to that, an agreement was made with these companies on follow-up and interpretation of the ruling. The latter round concerning these matters started with an injunction being put on Símfélagið, Hringiðan, and Snerpa on October 15, 2015. A reconciliation was made with Snerpa that the company would abide by the court's ruling against the other companies and, thus, the injunction order was cancelled regarding Snerpa. Court cases against the other two companies were then filed to confirm the injunction and the case was won in the Reykjavík District

Court on October 17, 2016. The case was appealed on behalf of the telecommunications companies to the Supreme Court where it is currently under proceedings.

NCB

An agreement was made at the General Meeting of NCB, first at the beginning of January 1917, and then finally in May, to outsource the operations of NCB to KODA in Denmark. The reason for the changes was mainly to make the operations of NCB safe, as the income regarding private copying had decreased considerably in recent years, and would foreseeably continue to do so. It was not least difficult for the staff members of NCB to work in such an insecure environment. With the outsourcing of the operations to KODA, the staff members who followed NCB to KODA will obtain a totally different working environment and possibilities of promotion within KODA, in accordance with the contraction of the operations of NCB.

A great deal of work has been put into the transfer of the staff members; making of a service agreement, changes in resolutions, changes in Board rules, organization of work, etc. The transfer formally took place on April 1, 2017. After the change, there is in fact only one staff member of NCB who supervises the execution of the service agreement and the transfer follow-up, and supplies the Board with information on the execution. There are no plans to make any changes of the Board or its organization. No changes in the NBC branch in Iceland are expected, at least to begin with, but STEF has been considering the best way to secure the interests of our members within NCB in the future, and especially regarding the legal form of the branch.

A Few Key Figures from the Financial Statement of 2016

The Disposal of STEF's Cultural Contribution on Behalf of Member Societies

Report from the Icelandic Composers Society on the disposal of STEF's Cultural Contribution

STEF's cultural contribution to the Icelandic Composers Society – ICS, is partially disposed to daily operations of the ICS, e.g. expenses for housing a website, expenses for bookkeeping and making financial statements, general office expenses, expenses for having a Board and paying directors' fees to the Chairman. All that is left, and all the contributions from STEF, in addition to the monthly current transfer, goes to the operation of the music festival, Dark Music Days. It should also be mentioned that the Chairman's director work consists to a great extent of work effort relating to Dark Music Days. Every five years, there is additional festival work as that is when the Nordic Music Days are held here in Iceland. The ICS is responsible for their operation and finances the festival completely. In the year 2016, the Nordic Music Days were indeed held in Iceland which made the operations of the Icelandic Composers Society considerably more difficult, because STEF's cultural contribution is the only regular influx of cash to the society.

The Dark Music Days festival is one of the most important arena for progressive modern music in Iceland. The festival has long ago made a place of honor for itself in the Icelandic music scene and raises interest far beyond the country's borders. The role of the festival is to create an arena for the presentation and performance of contemporary music, with an emphasis on new Icelandic music and performers, in conjunction with foreign works and performers. There are a number of different music events on offer every year which reflect the variety of music in our present time. An emphasis is placed on original creation and experimentation and first performances of compositions are prominent on the agenda. For 36 years, the festival has shed light into the cultural life of Icelanders during the times of the greatest winter darkness.

The festival is held at the end of January every year and normally starts on the last Thursday in the month. The objective of holding a festival in January is to develop an agenda of events when there is not much going on in the cultural life of the country. As mentioned before, the festival gives priority to being an arena for original creation and experimentation. Therefore, the premiere of progressive music carries the greatest weight on the agenda every year. Repeat performances of younger Icelandic and foreign works have also been prominent.

The role of Dark Music Days, in presenting Icelandic music, is unequivocal. Every year, representatives of foreign media attend the festival, in addition to record producers, artistic managers, orchestras and chamber music groups. It is, therefore, also an arena for international networking, which is very important for Icelandic musicians, both composers and performers. Iceland Music Information Centre, ÚTÓN, and Promote Iceland have given considerable support to this part of the festival. The Iceland Academy of the Arts – IAA, has also regularly taken part in this international collaboration, and foreign composers, who visit the IAA as guest professors at this time of year, have also been invited to the festival and, in return, the foreign guests of the festival have visited the IAA and given lectures, or held workshops there. This has led to coverage in a number of well-known foreign media such as *The Guardian*, and *Neue Zeitschrift für Musik*.

The Dark Music Days festival has been operated by the ICS from the very beginning. In order to increase both the independence and transparency, it was decided to establish a private limited company, owned by the ICS, to operate the festival. The establishment of the company is in process at the Commissioner of the Inland Revenue when this is being written. Incident to this change, it was decided to change the arrangement regarding the artistic management of the festival which has until now been in the hands of the Chairman of the ICS. In order to increase the independence of the festival and guarantee fairness in the selection of projects for the festival, it was decided to advertise for an artistic manager for the year 2017. The advertisement for applications was on the website of ICS, as well as on the social media of Dark Music Days. Gunnar Karel Másson, composer, was employed as the artistic manager of the festival.

The Cultural Contribution of STEF to the ICS amounted to a total of ISK 7,989,515 in the year 2016.

Report from the - The Icelandic Society of Authors & Composers on the disposal of STEF's Cultural Contribution'

Following a summary and examination of financial statements, it is the opinion of the Board of the Icelandic Society of Authors & Composers – ISAC, that there is need to increase the cultural contribution considerably, because, as the can be seen by the following conclusions, it does not even cover the natural operating expenses of the society.

An interested society such as ISAC must also tend to education, conference and event management, and when these factors come into the equation, the difference becomes more evident. It is not easy to get financial support from companies for the projects of ISAC and, thus, the cultural contribution is the solid foundation for which the society has such evident need in order to supply its members with minimum service.

The cultural contribution of STEF to ISAC amounted to a total of ISK 7,989,515 in the year 2016.

The operating expenses of ISAC amounted to ISK 7,816,425.

Expenses relating to event management, conferences and meetings amounted to ISK 2,019,961.

Grants from ISAC amounted to ISK 400,000.

REVENUE:

Cultural Contribution of STEF: 7,989,515

OPERATING EXPENSES:

Wages and related expenses	4641955 (operation)
Operation of common property	811500 (operation)
Telephone and music service	118038 (operation)
Maintenance of tools and equipment	43420 (operation)
Paper, printing and design	404160 (operation – invitation cards etc.)
Design	188480 (operation – invitation cards etc.)
Computer system	267454 (operation)
Advertisements	470637 (operation – events, advertised rgd funds)
Audit, bookkeeping	499380 (operation)
Membership fees, annual fees	153320 (operation)
Flowers, gifts, decorations	<u>218081 (operation)</u>

7,816,425

EVENTS AND GRANTS:

Machinery rental	314023 (events – garden party and New Year meeting)
Rent	102450 (events - copyright conference in Kaldalón)
Grant to Kítón	400000 (grant rgd. Music book)
Garden party	<u>1603488 (events)</u>
	2419961

TOTAL EXPENSES: 10,236,386