



Annual Report 2011

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DIRECTOR'S STATEMENT

Ready for tomorrow

HEAD OF LEGAL AND INTERNATIONAL



Koda, striving to be the best

KODA'S COMMERCIAL DIRECTOR



Koda: Closer to you

DIRECTOR OF OPERATIONS



Leading through efficiency

ANALYSIS

A time of change for Danes' listening habits

ADMINISTRATIVE COSTS

10.3%

ONLINE MUSIC

Increase in internet revenue

Said about us



"Koda is a very important partner for us in Denmark and we have totally aligned goals, which are to increase the overall Danish music market. We work in close cooperation to ensure that composers, authors and publishers are rightfully rewarded for their work. Koda has embraced the new digital development and is a modern player in the music industry."

- Ojje Holt, Nordic MD, Spotify.



"Having the support of conscientious and honest people who are committed to music is invaluable for a songwriter and producer. At a time when the industry is constantly changing, it is important to be a member of a progressive and flexible organisation like Koda that helps us all to stay on the right path."

- Søren Rasted, songwriter and producer



"Koda is the world's best performing rights organisation! Many have said it, many have heard it, and I believe it. I've depended on my Koda payments for years. Koda's professional handling of my rights creates a secure base for my composing business around the world. They have always treated me well, even when I wasn't earning very much money. The next 10 years will present many challenges for those of us that create music, Koda and NCB. The key will be collaboration."

- Jacob Groth, composer



"Koda was especially important at the beginning of my career. It was really my only source of income. Koda provides a sense of security in the knowledge that when an artist gets airplay the money will be collected. I also benefitted from Koda's national fund while I was completing my first album, 'Fauna.' I was signed to a brand new indie label, and had it not been for Koda's financial support I would not have been able to take the next step in my career. It is also extremely important that an organisation that you know and trust is fighting for musicians' rights."

- Nanna Øland Fabricius (Oh-Land), singer and songwriter



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DIRECTOR'S STATEMENT

Ready for tomorrow

Last year was a good year for Koda, according to managing director Anders Lassen. Koda made progress in nearly all the areas it deals with, while internally it continued to streamline operations for the benefit of members and customers alike. Koda's goal is simple: to be the world leading rights management organisation in Denmark. Realising that goal, however, also involves an obligation to improve today's ailing music industry and new requirements for good governance and transparency are welcome in this contest. Lassen says Koda is ready to lead the way.

2011 – it was a great year.

Koda increased its revenues in 2011, and once again made substantial payouts to its members – the creators of the music. Revenues from radio/TV, satellite/cable, and the internet all increased, as has international revenue, thanks to the success of Danish music around the world.

Despite already having some of the lowest administrative costs of any performing rights organisation, Koda still managed to cut those costs significantly in 2011.

Koda, Lassen says, has its sleeves rolled up and is ready to go to work. With financial success comes increased responsibility, and Koda must be ready to reach out and help the Danish music industry during this time of crisis, and continue the difficult struggle of maintaining revenue as digitisation continues to alter the way we consume music.



Koda managing director Anders Lassen hopes that the strength of Danish music internationally world will generate momentum that helps propel new artists to success



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A transparent and accountable organization

Koda constantly strives to be as transparent as possible. For that reason Koda also welcome the EU Commission's objective of improving transparency and governance of collective rights management societies in Europe. "Transparency in our distribution and our financial accounts in general are very important to the rights holders we represent and to our commitment to accountability. It also improves our ability to act as a trustworthy partner in the music industry."

"In the coming years the demand for more transparency will not only affect the collective rights management societies in Europe. It will affect all parts of the music industry. And the demand will not only come by regulation it will also come from our members directly – the composers, songwriters and music publishers. In that perspective we see the Commission's proposal as an opportunity for us – the societies – to be first movers in a new way of conduct in the entire music industry," Anders Lassen concludes.

EUR 7.7 million in cultural grants

"Koda distributed more than EUR 27.7 million to its members in 2011 – EUR 1 million more than we paid out the year before. Our outstanding year allowed us to give more than EUR 7.7 million to support culture throughout Denmark – EUR 0.8 million more than last year. It is vital that we put money back into music at a time when state spending on culture is drying up. We see ourselves playing an increasingly important role in the danish music enviroment. That is a position that we take seriously," says Lassen.

Lassen took over the directorship of Koda in 2010, and since taking the reins, he has led the organisation on a path designed to secure the future of the organisation. Koda focuses on being an indispensable and valuable partner to both those who create the music and those who use it. Efficiency, quality and customer service must be top notch and Koda must continually be on the lookout for new sources of revenue for composers.

Revenues up, costs down

"We increased revenues significantly in 2011. At the same time, we cut costs. We live in an intensely competitive environment and Koda strives to handle as many rights as we can. Our goal is to be the very best in Denmark at what we do. If we want to administer someone's rights, we must be able to prove that we can handle them better than they could themselves. We must have the best systems and as an organisation we need to be an efficient and attractive partner for our more than 40,000 customers, both large and small," Lassen says.

"We are judged by the amount we spend on administration. We reduced administrative costs by taking advantage of the very same technology that threatens our income: digitisation. We streamlined our processes and shut down the members magazine KODA/DK. We can communicate better and less expensively with our members by going online."

Minimising administration

"Development og the right computer systems is expensive, but we managed to lower our costs in 2011 by strenthgning the cooperation with our Nordic sister organisations. Denmark is a small country and we must co-operate if we are to succeed. In 2011, our administrative costs were 10.3 per cent – the second lowest level in 10 years – apart from 2008, when we received a large payment related to a court settlement. We have shown publishers that we are the best at managing rights and we saw a significant expansion of our management of online rights in 2011,"



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Lassen says who expressed satisfaction that Koda now handles much more music than ever before.

A Koda hit

“We have enjoyed surprising success by engaging in direct dialogue with our members through our ‘Koda – Closer to you’ campaign. It is incredibly rewarding when members see the benefits and take advantage of our new services. We have become much more than just an organisation that collects money. We want to be a major part of our members’ daily lives,” Lassen says.

Koda's new initiatives can help composers and songwriters become better at running their individual small businesses. And more professionalism in the music industry is a necessity as Koda's Director cannot promise increasing payments to individual members in the years to come.

“Although we have seen an increase in revenues from online music, they do not make up for the decline in CD sales,” Lassen says. “Consumers are well aware that the cost of making music available digitally is lower than if an artist actually presses a CD and sells it in a shop. At the same time the number of members to share the cake is increasing because of the upsurge in the music supply, and due to the digitalization the music that people listen to is much more varied. This means that the individual member may experience that his/her Koda royalties are decreasing in the future.

The coming TV revolution

“We shouldn't underestimate the long term risks. Revenues have increased from electronic media, but we should expect that the distribution will shift from cable to the internet in the coming years. It will be a huge challenge to us. Koda currently has solid agreements with the few existing satellite and cable operators in Denmark. I think that Apple has the potential to launch an internet-TV-model that will give consumers access to a very appealing line-up of movies and television programmes. I hope that cable providers will continue to develop. We are always willing to a dialogue if we can help cable TV to continue to be attractive to the consumers”, Lassen says. The gloomy prospects are moderated by the fact that Danish music right now is experiencing triumphal progress both at home and abroad.

Danish dynamite times

“Our overseas revenues have increased and Danish music is simply excellent these days. The recent Danish Music Awards featured only Danish artists. The songs, staging and performances were amazing. I was proud of the Danish music scene because there was no need to pull an international artist from the wings to add lustre to the show. I think we are experiencing what I call the ‘Bjorn Borg’ effect, where the success of danish artists like Aura, Agnes Obel, Oh Land and Rasmus Seebach create fertile ground for exciting new breakthroughs,” Lassen says.

This is partly due to the fact that Danish musicians now better understand that they are dealing with culture as well as business.

“The music industry is gradually becoming more and more professionalized which merely underlines the fact that music is actually quite a big profession. The Roskilde Festival for instance generates a turnover of one billion DKK if you include the derived economy from transport, sales of tents and rubber boots, and the boost in local business, etc. The same thing happens when a

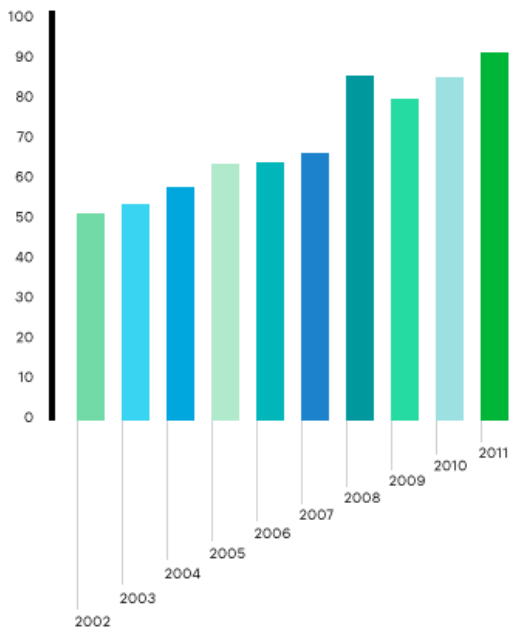


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group like Bon Jovi plays in Horsens and the crowd visits the local shops, pubs and restaurants. The economy also gets a boost when one of our artists has an international hit. Music is a green industry – it doesn't harm the environment and it doesn't require large production facilities. It is exactly the kind of export article that Denmark is looking for. So when it comes to music we should think big and visionarily. We shall gladly be in the frontline in some areas if we can kick-start a positive development for Danish music."

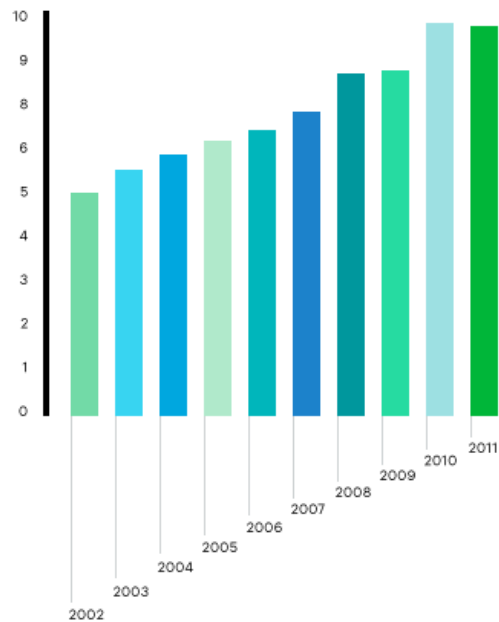
Koda's total income 2002-2011

In M. EURO, interest not included



Changes in Koda's expenses 2002-2011

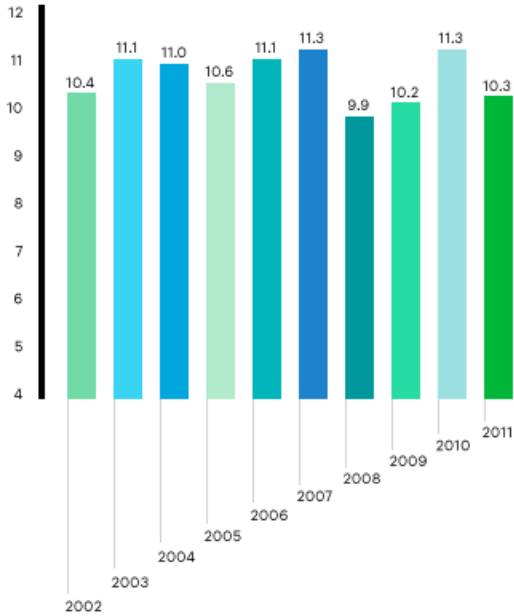
In M. Euro





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Kodas Administration Costs 2002-2011





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CHAIRMAN'S REPORT

Strategies on track

Koda chair Pia Raug is pleased that the organisation's new strategies have quickly yielded tangible results. She points out that Koda's solid numbers in 2011 indicate that the Danish music scene is on the rebound.

When Raug took over as chair in 2010, one of the board's first tasks was to find the right managing director for Koda. Raug believes that the organisation's recent financial success and positive changes show that the search succeeded beyond the board's wildest expectations.

"Koda's strategy is running on all cylinders towards our goal of being effective at creating value for customers and members. Koda must think progressively and be a pioneer when it comes to new digital solutions. It is also very important that we support cultural diversity. This is where Koda's broad support for cultural contributions plays a vital role," says Raug.

Necessary innovations

Raug says she's pleased with Koda's "impressive performance" in 2011, especially in the face of an on-going recession.

"Managing director Anders Lassen has positioned himself as a visionary thinker, well-supported by his dedicated and talented staff. This has already paid off by benefitting our partnerships, our reputation and helping us achieve a positive financial result. The results even surpassed the much-celebrated numbers for 2008, when Koda received a large, overdue payment. In 2011, Koda's turnover rose by about 7 percent and profits by about 10 percent. Koda leads the way as a modern and competitive rights-management organisation, and has earned respect not only from its Danish, Nordic and European partners, but also from the EU authorities. Several directorates have singled out Denmark as a pioneer – and Koda as an innovator," says Raug, who is also chairman of the composers' association, DJBFA.

Monetary miracle

It is Danish songwriters and lyricists who will reap the most rewards from Koda's positive financial statements – directly through Koda's payments for the use of their music, and indirectly via Koda's funds for cultural contributions. In 2011, Koda's contribution to these funds was no less than EUR 7.7 million.

Raug believes that supporting domestic musicians is vital for the domestic music scene to maintain the diversity and quality it has shown in recent years.

"It is worth emphasising that these are not state aid. This is money earned by artists whose rights Koda manages. Ten percent of that income is set aside for our funds for cultural contributions. Other types of artists, who receive much more state subsidy than music creators, are envious of our arrangement. They have to stand with their hands out every time the state adjusts artist



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subsidies," says Raug.

Defend copyrights!

Raug is concerned that the very foundation of a songwriter's livelihood, the copyright, has become endangered.

"We have seen the anti-ACTA demonstrations and read the articles in Danish newspapers against protecting copyrights. I hope that parliament will help us continue to ensure that copyrights are respected. It is important that this fight is not only left up to Koda and other composers' associations. Artists should speak out about how important copyrights are to us and for our ability to earn a living. The copyright is there to ensure artists' income, allowing them to concentrate on making music," says Raug.

Another highlight of 2011, according to Raug, is the decline in pirated music that was enabled by the many legal download and streaming services with which Koda now has agreements.

Going with the flow

"Koda forged an agreement in 2011 with the streaming service Spotify. Studies had revealed that the illegal streaming market was growing out of control and artists were losing money. At the same time, legal streaming was on the rise in Norway and Sweden, where Spotify was already available. Koda encouraged the board to create an agreement with Spotify, similar to those in other parts of Scandinavia, where rights-management companies receive 12 percent of service revenue. Koda believes that Denmark should be a pioneer when it comes to new ways to give consumers access to music. Spotify's launch in Denmark has been the company's most successful ever, and since its payment to Koda is dependent on turnover, that is obviously good news. It is also interesting to note that digital incomes in Norway and Sweden now surpass revenues from CD sales," says Raug.

Back to school

Despite Koda's strong 2011, Raug still has a word of caution for Koda members who want to see their incomes improve in the years ahead.

"More money is coming in, but there are also many more members to share it. That is why it is so important that Koda continues to develop new revenue streams while working to streamline our operations even more. Koda is developing computing solutions in close collaboration with our Norwegian sister organisation TONO, and Anders Lassen has worked hard the past few years to restore relationships with our Nordic and European partners. That's why it's so gratifying that the Finnish rights organisation TEOSTO has now joined the Koda/TONO co-operation. This can only enhance the already historically strong Nordic co-operation. This could make the Nordic region an attractive partner as one of the 'hubs' that are likely to be the EU's preferred model for European regulation of rights management," says Raug.

Koda's board, Raug adds, is part of on-going efficiency efforts.

"Board members have new duties and increased responsibility. Relevant courses and training will be offered during 2012. Many of us on the board are basically artists with the creative spirit and indomitable courage of eternal teenagers, and we should never lose that willingness to go outside the lines. However, we must also display professional accountability. We must ensure that we have

the necessary skills to make the right business decisions on behalf of Koda's 37,000 members," says Raug.



Koda's board 2011

From the left: Niels Rosing-Schow (DKF), Tine Birger Christensen (DMFF), Jacob Morild (DPA), Susi Hyldgaard (DJBFA), Ivan Pedersen (DPA), Koda Chair Pia Raug (DJBFA), Klaus Ib Jørgensen (DKF) and Jørgen Andresen (DMFF). Ole Dreyer-Wogensen (DMFF) was absent.

HEAD OF LEGAL AND INTERNATIONAL

Koda, striving to be the best and the least expensive

The EU is calling for tougher standards on performing rights organisations concerning transparency and increasing the amount of influence members have on decisions affecting their music. Koda already meets those requirements. The Danish performing rights organisation also leads the way in earnings and efficiency.

“At Koda, we understand that we are only a valuable partner to international music rights holders if we can administer their rights less expensively and more effectively than they can themselves. The objective of ‘value-for-money’ is one that we constantly strive to achieve,” says Koda’s Head of legal and international office, Jakob Hüttel.

At a time of increasing focus on the efficiency of performing rights managements societies arena, Koda holds a strong hand.

“We are at the top internationally in terms of domestic income per capita and we are engaging in profitable business partnerships. Our accounts from 2011 show greater efficiency, achieved by declining costs and increasing revenues,” says Jakob Hüttel.

Modern and flexible

Koda has also strengthened its Nordic co-operation.

“It makes us stronger when we can draw on NCB’s proven back-office system. The partnership makes us even more attractive as a manager of rights for multinational music publishers - even those who sometimes prefer to license their works directly. Koda



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focuses on being a modern rights management partner. When the needs of the rights holders and our customers

Hüttel, Koda already meets those requirements.

change, we respond," says Hüttel.

Koda is also prepared to meet the anticipated EU requirements for greater transparency and streamlined international music licensing.

"We are supportive of any solution that makes it easier to license music across borders. Koda has been at the forefront of this idea as part of the Nordic co-operation, which is often cited as the groundbreaking 'Nordic Model'", Hüttel says.

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Open books

"Koda has a long tradition of transparency. It is the way we choose to do business. Our books are open and we are as detailed as possible in our financial statements to our members and customers. Koda is also at the forefront when it comes to ensuring that rights holders have a voice. A few years ago, we gave publishers another seat on the board, giving them three out of the nine places. Koda made the move at the suggestion of GESAC and ICMP," says Hüttel.

THE DIRECTOR OF OPERATIONS

Leading through efficiency

The amount of data handled by Koda has exploded in recent years.

The number of works distributed by Koda is soaring and the organisation has made great strides in monitoring the music of its members. Such improvements may sound costly, but Koda has actually reduced both its costs and staff. Koda's Director of Operations Tine Eilskov says the changes have come about thanks to increased efficiency and improved international co-operation.

In 2011, Koda's overall statement of music played in radio and television, in films, at concerts or on the various streaming services available on the web, included a total of 526,000 different musical works.

Making distributions of these works requires accurate work data. This gives you some indication of the huge amount of data which Koda has to keep track of in order to ensure the quality of the members' distribution when their music is used.

Koda's operations department is responsible for this and Tine Eilskov, the director of operations, is reflecting on a 2011 where streamlining was the name of the game in her department.

Even though the number of works they handled increased dramatically, the operations department actually reduced costs and currently functions with five fewer employees than it did in 2007.



Koda's success in 2011 is due in part to streamlining systems and a fruitful collaboration with Norwegian TONO.



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Repertoire soaring

"The number of different works to receive distribution – Danish as well as foreign – has grown by 73 per cent in three years. This presented a challenge for us when the major online music services hit the market. When TDC Play came online in 2008, listeners suddenly had a huge selection of music immediately available to them. Many older songs reappeared, some of which became digitally available for the first time. It is wonderful and fun for the consumers, and at the same time this diversity makes heavy demands on our department," says Eilskov.

Fortunately, the digital age also means that 98 per cent of the musical works Koda handles are registered electronically. Koda members register their works and their concerts via the web portal 'Mit Koda' (*My Koda*).

"It is invaluable to us that some of our largest customers are effective, precise and co-operative in their reporting. These include DR, TV2 and TDC. This helps us keep operating costs down, to the benefit of the rights holders. We are always willing to help our customers develop the most efficient reporting systems," says Eilskov.

New Nordic signals

It is not enough for Koda to know that a song has been played on radio or television – that information must then be broken down and processed in the most effective way possible.

"Our software is getting better and better at recognising an individual songwriter's works and matching them to the musical works in our databases. They are thus immediately linked to the rights holders entitled to receive payment for the performance and the payment is made with the correct percentage split. It is in the area with automated match that we have streamlined the most. Since 2008 we have been collaborating with our Norwegian sister society TONO to streamline and develop our reporting systems. The Finnish performing rights organisation TEOSTO has watched our success during the years and has now also joined the co-operation. Such partnerships allow us to share both costs and experiences. NCB has for several years handled Spotify's reportings from Norway and Finland with great expertise. Now that Spotify is available in Denmark, we look forward to using NCB's expertise here as well," says Eilskov.

30 million works

No matter how advanced the software becomes, there will always be a need for Koda employees to fine-tune and control some of the registrations as well as enter some information manually.

"This for instance applies to new songs that hit the airwaves before the writers have registered them with Koda or foreign songs not yet in our database. There are at least 30 million musical works in the world today. Obviously, not all of them are registered in our database. There are thousands of foreign works which we have to track down manually. We also work to ensure that our members receive payment when their music is used abroad. Our outreach efforts produce results; foreign revenues increased by 10 per cent in 2011 compared to 2010. We do everything we can to ensure that the entire Danish repertoire is available in the databases used by our sister societies around the world. We specifically focus on Danish works which we know are hitting in



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certain regions, as we recognise that relatively few works generate the majority of Koda's foreign income. We make sure that other performing rights organisations are supplied with a complete set list if a Danish act is touring in their area.

“We are also the watchdogs for the Danish television and film productions currently doing well overseas. Be it ‘The Killing’ on German and English television or ‘The Eagle’ on a French channel, we make sure that the individual foreign societies have the correct information about the writers of the background music, theme music and so on. This information is often missing and it is a large income generator for songwriters. We will intensify these efforts,” promises Tine Eilskov.

Koda focuses its outreach efforts on Sweden, Norway, England, Germany, Finland and France, as an analysis has shown that these geographically close countries produce most of Koda's foreign income.

Quick payment

Koda members – both Danish and foreign – can rejoice in the fact that they are now getting the money owed to them faster than ever. In 2011, Koda members received immediate royalty payments of EUR 2.6 million – compared with just EUR 0.5 million in 2010.

2011 showed a substantial decline in the amount of money waiting for distribution. These amounts typically stem from payments from customers for the use of music, but as the reporting basis we have received is incomplete we are unable to make a distribution to the rights holders within the accounting year.

Koda's intensified efficiency is yet another argument for music publishers and others to consider when they are to decide who should manage their rights in Denmark.

“Our relationship with international music publishers is getting better and better. Despite fierce competition, many choose Koda to administer their rights in Denmark. Our efficiency, fair tariffs, transparency and speed at handling payments and complaints are attracting new members. We have a growing number of foreign members who are either transferring their membership to Koda or becoming ‘split members’, where Koda represents them in some part of the world,” says Eilskov.



A time of change for Danes' listening habits

Danes are finding new ways to listen to music. The use of streaming is exploding; more and more people are trying out this new way of experiencing music. According to a study by Koda, this trend is putting a damper on both CD sales and the use of pirate music sites.

Koda is closely watching the Danes' listening habits.

Since 2010, Koda has asked Danes how they listen to music and these surveys shed light on how listening habits have changed over the past few years. The latest study conducted by YouGov in January 2012 shows that the digital marketplace for music is growing rapidly. Koda considers this a positive development.

Music as an active choice

Danes love music. About half of the people in Denmark actively choose to listen to music every day, and for young people, that number is 80 per cent. Figures collected since 2010 clearly show that the younger the listeners are, the more they listen to music. Danes are no longer passive listeners who use the TV or radio for background music. The number of people listening to music only since on the radio has fallen by half 2010 and now represent less than 5 per cent of the population. In other words, during the past two years Danes has made music a much more conscious and active choice.

Streaming continues to gain ground

In 2010, Danes' knowledge of music streaming was limited mostly to services like YouTube and Grooveshark. The telephone and cable operator TDC had just launched its Play service and Telenor's WiMP was only available to those using its mobile network. Since then, a steady flow of legitimate streaming services have come online and the market continues to grow. Services like WiMP, Rara, Spotify and Rdio are now accessible to everyone and this has an effect on the Danes' media conduct.

Up to one quarter of all Danes now stream music every day, and more than one half stream music on a weekly basis. Younger people now stream music daily. Some 80 per cent of 12-17-year-olds stream music every day.



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Facts about streaming

- 23 % of the population streams music every day
- 52 % of the population streams music every week
- Only 19 % of the population says it never streams music
- 83 % of Danes between 12 and 17 stream music every day

Source: Koda

Streaming changes behaviour

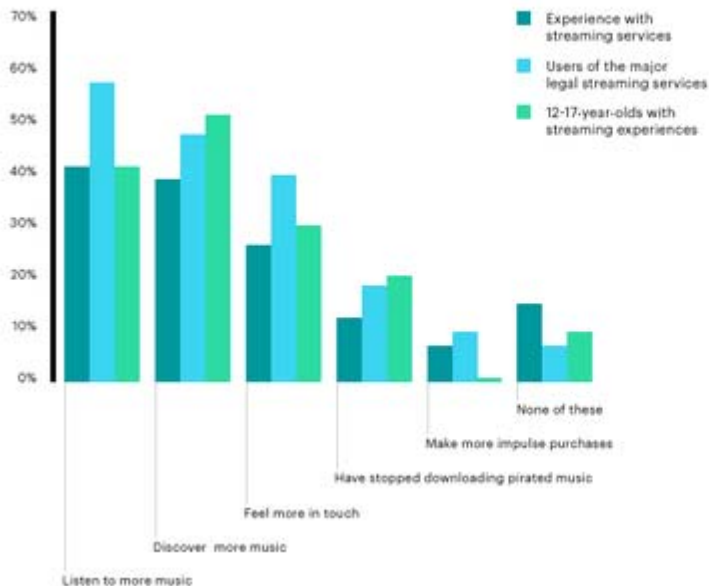
Streaming services generally change people's "musical behaviour". Danes say that access to streaming services makes them:

- Listen to more music
- Discover new music
- Feel more in touch with the musical front
- Listen to less music illegally

Streaming counteracts pirate copying

The changes are most obvious among those using the major domestic streaming services at home. More than one in five in this group say they have stopped downloading music illegally. A very large group also says that streaming encourages them to make more impulse purchases. Streaming is also improving the music habits of younger people. As much as 23 per cent of 12-17-year-olds who use streaming services say that they have "stopped illegal download".

Streaming means that I...



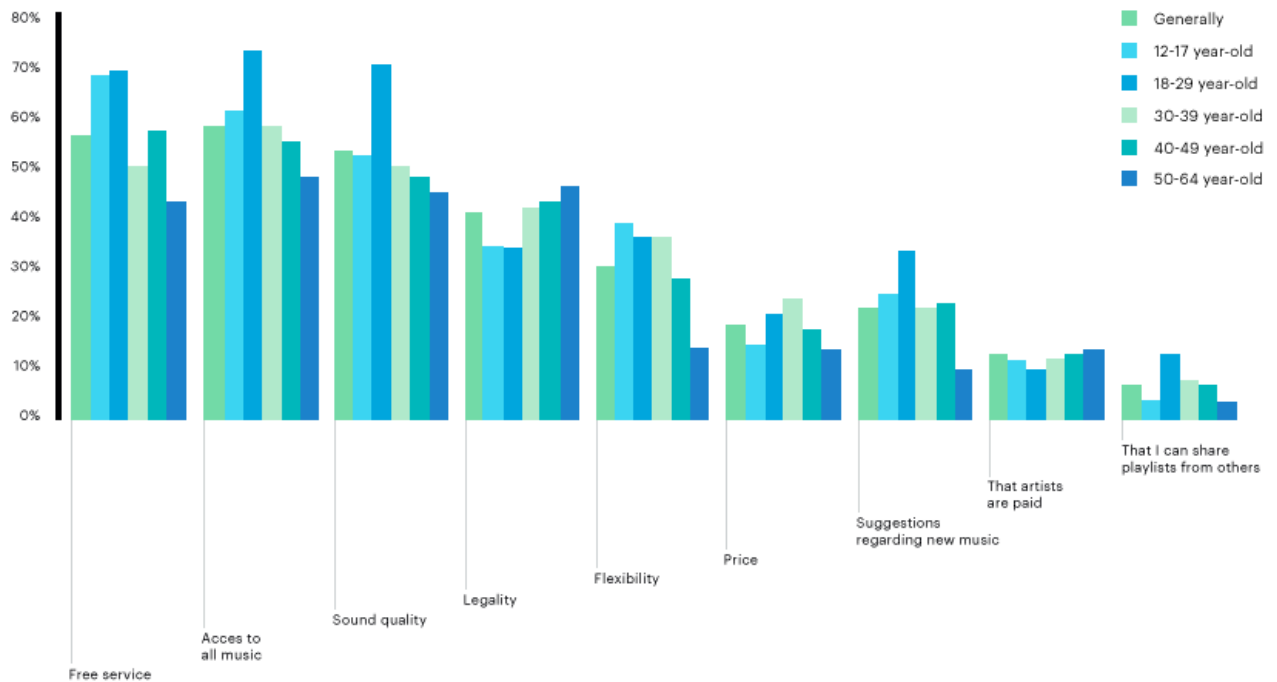
The columns indicate the changes in behaviour that the users of various streaming services identified with. “Experience with streaming services” indicates those that stream music at least once a month. “Users of the major legal streaming services” is restricted to responses from people that regularly use Spotify, WiMP, TDC Play and similar services.

Total access, high quality – preferably free

When Danes choose a music service, three main factors come into play: access to all music, high sound quality and that the service is free. It is only of secondary interest whether the people who have created and performed the music are getting paid. Only 13 per cent of Danes find it important that the service they use pays musicians and songwriters.

However, music creators have reason to be optimistic. Newer generations show increasing appreciation of the fairness that composers and songwriters are paid for their efforts.

When choosing a music service I look for...



The graph indicates which services are important to the different age groups. Some of the possible responses people were given have been edited for readability.

Compared with 2010, 30 per cent more Danes were concerned about whether artists received payment. This increase in awareness was especially noticeable among younger listeners. In 2010, virtually no 12-17-year-olds worried whether the streaming service they chose paid the music creators. That picture has changed during the past two years. Young listeners are now on par with the rest of the population in believing that artists should be paid for their work.

When that age group is expanded to 12-29-year-olds, the concern for artist's rights drops considerably. This larger cross section is more concerned that they can get music for free and less concerned if the site they are using is legal or illegal. It is thus still a big challenge for Koda, musicians and the music industry to convince this broader group of young people to respect the rights and efforts of songwriters and composers.

Ownership is less important

As Danes embrace streaming services, it becomes less important to own the music they listen to. In 2010, just over half of those polled said that it was of "little importance" or "no importance" to them to have music stored on their computer or on a CD. The trend is continuing and the importance of actually owning music has fallen among all age groups in Denmark. One in five Danes now say that owning music is not important to them. Nine per cent of the Danes no longer keep or store their music anywhere as they prefer streaming instead; an increase of 50 per cent



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since 2010.

Streaming: The MTV of the future

Since 2010, streaming has doubled in importance as a source for Danes to discover new music. Streaming services are now the second most important source for finding new music, while the influence of traditional media like radio and television continues to decline.

When it comes to the streaming services' importance in terms of listening to new music, young people lead the way. Already in 2010 the streaming services were their main source of discovering new music, and it still is in 2012 to an even greater extent. In 2010, one in four 15-year-olds said they found the music they enjoyed via streaming. By 2012, that number had increased to one third in that agegroup. Older listeners still find most of their new music on the radio, but radio's influence is slipping as other age groups are also beginning to discover streaming services. Streaming's importance has doubled among 30-39-year-olds and increased seven-fold among the 40-49 age group.

The CD's significance in free fall

An increasing number of Danes are listening to music on portable music players such as mobile phones and mp3 players. Recent studies show that the CD is rapidly losing status as an important music medium, and the future prospect of the CD is rather gloomy.

Figures about when Danes last bought a CD, indicate that they are mostly bought for children or as a Christmas gift. Since 2010, it has become increasingly rare for Danes to buy CDs for themselves. Ten percent of Danes say they have not purchased a CD for themselves in the past five years and ten per cent of 18-29-year-olds say they do not own a single CD. Both of those statistics reveal an increase of 40 per cent since 2010.

CDs have fallen well behind mobile devices as Danes' preferred method of listening to music, both at home and on the go.

Illegal services still hanging on

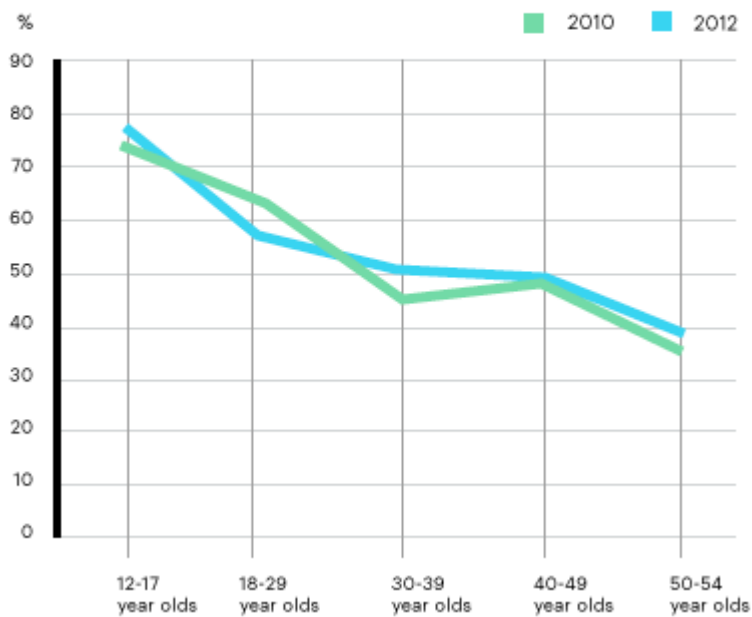
A wide range of legal streaming alternatives has reduced the number of people using pirate services, but some are still hanging on. The continued use of Grooveshark is a perfect example. Although the use of legal services is booming, the number of listeners using Grooveshark continues to grow. At the beginning of 2012, 20 per cent of 18-29-year-olds and 16 per cent of 12-17-year-olds used the service often, a tripling since 2010.

Many users confuse Grooveshark with a legal service when it really is a wolf in sheep's clothing. The vast majority of the youngsters believed that Grooveshark paid the artists for the use of their music. Koda is undertaking legal action to either close the service down or bring it into line and make it start paying for the rights to use music.

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The survey was conducted in collaboration with the research company YouGov. A total of 1014 CAWI interviews were done in January 2012 among Danes between the ages of 12 and 64 who listen to music on CDs, mobile phones, computers or mp3 players.

Daily Music Use



The curve reflects, by percent, the different age groups that actively listen to music on a daily basis



"Koda is a very important partner for us in Denmark and we have totally aligned goals, which are to increase the overall Danish music market. We work in close cooperation to ensure that composers, authors and publishers are rightfully rewarded for their work. Koda has embraced the new digital development and is a modern player in the music industry." - Öjje Holt, Nordic MD, Spotify

Koda: Up close and personal with members and customers

Koda's strategy is clear: See eye to eye with its members and customers. In 2011, Koda offered up several brand new programs to members while constantly working to discover new revenue sources. Revenues from the internet alone in 2011 increased by EUR 1.7 million compared to 2010. Trine Nielsen, Koda's Commercial Director, is constantly striving to get music out in as many places as possible.

"Koda has been forced to reinvent itself in recent years. We have become much more effective at problem-solving and much more co-operative," says Trine Nielsen, director of Koda's commercial department.

This farsighted and visionary strategy resulted in a successful 2011 – both on the books and in terms of creating a closer relationship to members.

"Our goal is to offer unique benefits and services to our members and our customers, for their common good. We are constantly looking for new areas of revenue and strive to be at the forefront of improving cultural diversity. I think we made major strides in 2011. We enjoyed almost ten percent growth in the midst of a worldwide financial crisis," Nielsen says.

Members as the focal point

Nielsen is particularly gratified by the overwhelming success of the "Koda: Closer to You" initiative.



The new streaming services on the web have started to contribute significantly to Koda's revenue, says commercial director Trine Nielsen.

"We view ourselves as a partner who helps our members realise the goal of living from their music. We invite members to participate in numerous seminars and a series of meetings we call Kodalounge. These are cosy and informal sessions filled with ideas, inspiration and networking opportunities. We listen and incorporate suggestions into upcoming arrangements. A recent



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session helped members learn about opportunities available via the many new music streaming services. There were over 100 participants at our first seminar. We currently hold two to four events monthly. Our closer relationship to the members revealed the desire of prominent members for Koda to provide business counselling. We hired Martin Folmann to serve that need. I have heard several members say that Koda has gone from being a remote organisation to becoming a part of their day-to-day life. That is precisely the goal of "Koda: Closer to You," says Nielsen.

Hungry for music

The commercial department has also reached out to customers in the past year.

"We have i.a. initiated a close co-operation with HORESTA (The Association for the Hotel, Restaurant and Tourism Industry in Denmark). We have a brochure on the way highlighting how the right music can enhance the dining experience and create additional value. We are always on the lookout for new areas of revenue and music is becoming increasingly popular in the marketing of products and corporate branding. We know that music may have a relaxing and even healing effect, so we are seeking new marketing possibilities in workplaces, wellness centres and other public institutions. There are many unreclaimed areas available. We want to build bridges between customers and members so that music is used more often, which will create live performance opportunities for our members," says Nielsen.

The plummeting CD sales of recent years have made it necessary to look at alternate revenue sources. Internet streaming could be one of the lifelines for music creators. Koda's 2011 report shows a surge in revenue from the internet. Spotify, one of the internet's largest streaming services, entered the Danish market last year and is currently experiencing an explosion in the number of users.

Beaching the pirates

"We have made a good deal with Spotify – and with other internet services like TDC Play, WiMP and Sony. The agreement with Spotify is new, so it did not significantly affect financial statements for 2011. Nevertheless, we still realised a significant increase in internet revenue, from approximately EUR 2.4 million in 2010 to EUR 4 million in 2011. Composers and lyricists now get significant payments from streaming, and our members can most likely look forward to increasing revenues from this area in the years to come. "

"It is very gratifying that so many Danes are now using the new online music services and that they are willing to pay for them. Since TDC Play launched in 2008, we have seen a drop in illegal downloading. In Sweden, illegal downloading decreased by 25 percent after Spotify became available. Hopefully, popular legitimate services will take the place of pirate activities," says Nielsen.

Tomorrow's stars

It is primarily Danish music that has created the upsurge in music industry revenue in recent years. Trine Nielsen agrees with others in the industry that the Danish tradition of supporting the stars of tomorrow is the reason for the uptick. Koda has always provided invaluable support to the talents in Danish music and culture.

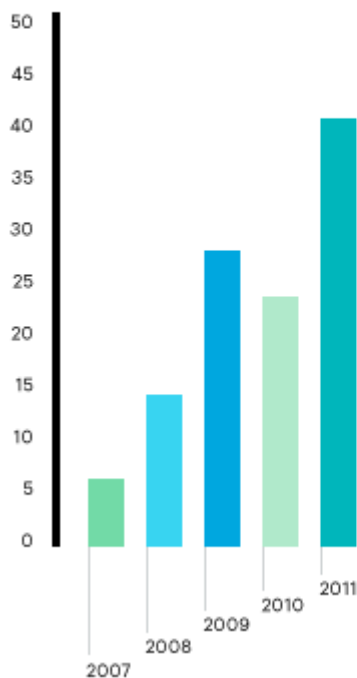


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"Koda has been a partner for many years in the emergence of new talent via our KarriereKanonen. It is important that we focus on talent and musical diversity. Danish music is doing very well internationally, and our income from abroad has risen more than expected. And they have not been restricted to a few big names. We are known for producing quality music in every genre; including pop, rock, dance, folk, heavy metal, jazz and classical. Koda also supports musical diversity via Spil Dansk Dagen (Danish Music Day). This initiative, created by Koda 11 years ago, has evolved into Denmark's largest musical event. We have developed close cooperation with local authorities, and arrange a number of "innovation days" designed to support music and musicians. Finally, Koda helped to launch Musikzonen (the Music Zone), which connects the players in the Danish music industry. Musikzonen has gathered a gold mine's worth of information about the music business as a profession," says Nielsen.

Koda's online income 2007-2011

In M. EURO





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"At a time when the industry is constantly changing, it is important to be a member of a progressive and flexible organisation like Koda that helps us all to stay on the right path." - Søren Rasted, songwriter and producer



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Financial Review 2011

Financial Review 2011

Note	2011	2010
1 Music Revenue, Denmark	82,240	73,643
2 Music Revenue, Denmark, Adjustment	-436	1,422
Music Revenue, Private Copying	457	740
Musik Revenue, Faroe Islands	476	448
Music Revenue, Greenland	439	419
Music Revenue from Abroad	6,312	6,017
Music Revenue	89,488	82,689
3 Administrative Costs	-9,632	-9,697
Result before Interest etc.	79,856	72,991
4 Net Interest Income	4,415	3,120
Result before tax	84,271	76,111
Corporate tax	-	-
Result of the year	84,271	76,111
Settled as follows:		
Payments Affiliated Societies	6,312	6,017
Contribution for Cultural Purposes	7,728	6,902
Collective Private Copying Payments	158	253
7 Remainder for Distribution	70,073	62,939
	84,271	76,111

All amounts in EUR 1000

Balance as of 31th December 2011

Note	Assets	2011	2010
	Liquid Funds	18,557	17,970
	Debtors	1,774	1,689
5	Securities	63,149	58,544
6	Property	12,520	14,521
	Fixtures and Fittings	334	457
	Accrued Interest	26	5
	Accruals	183	169
	Other Receivables	2,021	2,197
	Total Assets	98,563	95,553
Note	Liabilities	2011	2010
	Contributions for Cultural Purposes	8,382	7,630
	Collective Private Copying Payments	478	565
	Other Collective Purposes	60	134
	Remuneration Affiliated Societies	3,235	2,849
	Un-distributed Amounts	5,398	9,856
	Provisions for Write-up and Property	3,884	5,884
	Other Creditors	5,234	4,264
7	For Distribution	71,892	64,371
	Total Liabilities	98,563	95,553
8	Contingencies etc.		



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Note 1

Music Revenue, Denmark	2011	2010
Radio and TV	56,409	49,820
Internet	4,044	2,356
Cinema and Film Showings	1,477	1,343
Background Music in Restaurants, Hotels and Ships	5,733	5,698
Background Music	6,032	6,142
One-off Events	5,865	5,747
Other Entertainment	2,681	2,536
Music Revenue, Denmark	82,240	73,643

Note 2

Music Revenue, Denmark, Adjustment	2011	2010
Bad Debts Adjustment	-436	1,422
Music Revenue, Denmark, Adjustment	-436	1,422

Note 3

Administrative Costs	2011	2010
Staff Expenses	-7,454	-7,329
Consultancy	-545	-501
Control and PR Costs	-194	-183
Travel and Representation etc.	-327	-273
Cost of Premises	-556	-471
Stationary	-1,436	-1,226
Depreciation	-295	-170
Costs for Restructuring	-	-570
Cost Reductions	1,175	1,027
Administrative Costs	-9,632	-9,697

Note 4

Interest Income, net	2011	2010
Portfolio Yield	4,088	2,544
Bank- and Giro Accounts	142	198
Debtors	186	377
Interest Income, net	4,415	3,120

Note 5

Bonds and Investment Trust Certificates

The holding consists of unit trust bonds in distributing unit trust with portfolios consisting of bonds and shares

Note 6

Properties	2011	2010
Cost Price 1 January	7,957	7,997
Increase during the Year	-	-
Disposal during the Year	-	-40
Cost Price 31 December	7,957	7,957
Appreciation 1 January	6,586	6,545
Appreciation for the Year	-2,001	40
Appreciation 31 December	4,585	6,586
Depreciation 1 January	-22	-22
Depreciation for the Year	-	-
Depreciation 31 December	-22	-22
Accounting Value as of 31 December	12,520	14,521
Cash Value of Property as of 1 January	14,729	17,083

Note 7

For Distribution	2011	2010
For distribution according to the Financial Review	70,073	62,939
Unplaceable payments 1 January	1,512	1,030
Free Portion	307	401
For Distribution	71,892	64,371

Note 8

The estimated capitalised value of pension obligations is TEUR 301

Obligations regarding rental property:

Interior maintenance in connection with lease is TEUR 12

A lease has been signed for the address: Landemaerket 27, 1st, 2nd and 3rd floor. The Lease is irrevocable for 12 months. The obligation per 31st December 2011 amounts to TEUR 165

Leasing obligation:

A leasing agreement has been entered into in 2011. The agreement is irrevocable for 7 months. The obligation as per 31st December 2011 amounts to TEUR 10