

DISTRIBUTION RULES

English Version
For Information Only

Preamble

The new Article 177 of the Intellectual Property Law (IPL) provides that royalties collected are to be equitably distributed by music licensing companies to the owners of the works or other subject-matter used, and to other music licensing companies with which they have signed representation agreements, in accordance with the provisions of their distribution rules and that, in any case, it must be possible to trace the royalties collected and those distributed and paid.

Likewise, it establishes that the distribution and payment of royalties will be made periodically, in a diligent and accurate fashion and as soon as possible, and orders music licensing companies to take the necessary measures to identify and locate right holders.

In accordance with this legal mandate, Article 60 of the AGEDI Articles of Association provides that the General Assembly must approve the Distribution Rules prepared by the Board of Directors, which lays down the general guidelines and criteria for the distribution of monies collected, and special distribution rules and methods and means whereby to obtain information on the degree of use of phonograms or music videos by users.

In the drafting of these Rules, which entailed collecting and updating the distribution rules that have been applied up to the present and adapting them to the new requirements of the IPL, best practices in the sector were taken into consideration as were recommendations approved at international level.

ARTICLE 1. AIM.

The aim of AGEDI's Distribution Rules is to ensure that:

1. The royalties collected by AGEDI are periodically distributed and paid to phonogram and music video producers as soon as possible and in the most equitable, diligent, exact and efficient way possible, considering the different sources of information and tools available at any given moment and the cost thereof.
2. Royalties collected and then paid to producers are proportional to the use of their sound recordings and music videos.
3. It is possible to trace the royalties collected and those distributed and paid.

1. Distribution rules and general principles.

ARTICLE 2. GENERAL PRINCIPLES.

1. It must be possible to trace the royalties collected and those distributed and paid so that all stages, starting with collection up to distribution to rights holders can be identified.
2. Sums to be distributed are determined by the amounts paid by the users, minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.
3. Distribution must be made separately for sound recordings on the one hand, and for music videos on the other. Sums corresponding to recordings other than those to which the royalties to be shared correspond, may not be earmarked for distribution.
4. Whenever possible and economically viable, efforts should be made to obtain accurate and detailed information on the degree of use of sound recordings and/or music videos (as the case may be) from the holders of the rights managed by the entity.
5. Royalties should be distributed, whenever possible and economically viable, based on the actual use of recordings (sound recording or music video). If this is not possible, these rules establish the methods whereby to approach that actual use in each situation and in the most appropriate manner. However, if deemed necessary the Board of Directors may propose changes to these methods, which would be incorporated into these Rules after their approval by the General Assembly.

6. For entity management purposes, phonogram producers must provide AGEDI with full and accurate information in a timely manner concerning recordings for which they are rights owners and should also indicate the percentage, period and territories in which they own such rights. To that end, they must use international standards and tools and/or the tools developed by AGEDI to facilitate this process.
7. Distribution and payment of royalties shall be done periodically, in a diligent and accurate fashion and as soon as possible. In line with best international practices, efforts should be made to distribute royalties at least half-yearly and with a maximum delay of six months from the end of the period in which monies are collected. In any case, distribution and payment of royalties must be made within nine months as from 1 January of the year following collection. Notwithstanding the above, these deadlines may be extended for objective reasons provided for under law and for reasons of force majeure.
8. In order to guarantee a constant flow of income for right holders and avoid retention of such income by the entity, payments on account may be made to members, in equitable terms, provided that sufficient funds are available to do so where warranted by the specific circumstances that could affect the royalties subject to distribution. These payments on account will be adjusted once all the necessary information is available for the definitive distribution of royalties that correspond to each producer.
9. In general terms, there is a five-year limitation period on royalties collected which runs from 1 January of the year following the moment said royalties are made available to the rights holder for collection. There is a five-year limitation period on royalties collected and pending distribution when, following the distribution procedure, the owner of the sound recording, or music video has not been identified. Said limitation period runs from 1 January of the year following their collection. Once the limitation period has expired, the amounts pending distribution will be used for the purposes set out in the Articles of Association (Article 61) and in the General Policy concerning the use of amounts that cannot be distributed, approved by the General Assembly in accordance with the provisions of Article 177(6) of the IPL.

ARTICLE 3. PAYMENTS ON ACCOUNT.

1. As established in the foregoing, it is possible to make payments on account to members of the association, under equitable conditions, which will be adjusted once all the necessary information is available for the definitive distribution of the royalties that correspond to each producer. Non-members and past members may not receive payments on account. This is to prevent possible loss of association funds, as not enough information is available to assess whether it will be possible to adjust such payments on account when the definitive distribution is made.

2. With a view to trying to prevent negative adjustments, the maximum amount to be distributed on account shall not exceed 80 percent of the amounts collected and pending distribution.
3. A distinction should be drawn between payments corresponding to the public communication of phonograms, public communication of music videos and private copying.
4. In each of these cases, the distribution of royalties to each active member of the association is based on their participation share in the distribution of royalties during the previous year, but also taking into account circumstances that could affect their entitlement to royalties collected in the current year, such as transmissions or catalogue licenses.
5. Taking the greater instability of the repertoires affected by bilateral representation agreements into account, payments on account will not be made to the entities with which AGEDI has signed such agreements, unless payments have been agreed upon in these bilateral agreements.
6. In the case of agents, payments on account must be made to the owners of the rights they manage, even if they are paid to agents in their capacity as representatives of said right holders.

ARTICLE 4. GENERAL DISTRIBUTION SCHEME.

1. Amounts to be distributed.

As established in the foregoing, the amounts to be distributed are determined by the amounts paid by users minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.

2. Information on uses.

a. Information on the degree of use of sound recordings or music videos by holders of the rights managed by the entity will be obtained, seeking the most complete and appropriate information to reflect effective and specific use, from any of the following sources, where applicable:

- 1) Declaration by the users themselves, who according to Article 167 of the IPL are obliged to provide information on their uses, provided that such information is supplied in the necessary formats and time frames and is complete and reliable. AGEDI reserves the right to verify use by its own means or with the aid of third-party experts that monitor such uses.

- 2) Information provided by companies specialized in usage identification by means of digital print techniques or similar technologies.
 - 3) Declarations made by companies providing background music services.
 - 4) Own or third-party statistical studies.
 - 5) Market shares in the sale of recorded music.
 - 6) Information on uses in a different user sector, if there is a reasonable link between the two sectors.
 - 7) Combinations of different sources of information.
- b. In the event that there is no valid information on uses, or the information available is not considered entirely reliable, AGEDI may propose to the Board of Directors that other sources of data may be used or a combination of sources, which, if applicable, would be incorporated into these Rules following approval by the General Assembly.
 - c. Whenever possible, and economically reasonable, the amount collected from a user will be divided among the recordings used by said user in the corresponding period. For users whose level of payment does not justify the cost of having such individualized information, uses of a group of similar users may be considered following statistical criteria established by an expert third party.
3. Criteria for distributing royalties to recordings used.
- a. To the extent that it is technically and economically reasonable, distribution of the amounts corresponding to each of the recordings used will be made considering the time of use of each recording over the total time of use in the corresponding period. However, if this is not possible, distribution will be based on the number of times each recording has been used, but, in any case, uses with a duration of less than 60 seconds must be weighted downwards, provided this information is available, and will be assigned a coefficient of 0.2.
 - b. As established in Article 60 of the Articles of Association, the Distribution Rules may, for purposes of distribution, give special treatment to certain sound recordings or music videos, depending on their purpose or main objective, their audience, the nature of the objects reproduced in them, and any other reasonably objective aspect warranting such special treatment. For the purpose of distributing royalties, music entailing greater investment and originality and that seeks to develop artists is prioritised and weighted differently. Hence these recordings, whose main objective is to be consumed through the usual channels, both physical and digital, by the general public (known as 'commercial music'), will be given different weighting in

respect of other recordings published for commercial purposes but produced with a different main objective in mind and therefore entail a lower investment and less creativity and do not focus on the development of artists (commonly known as 'library music' or 'production music'). For this purpose, it is agreed to apply a coefficient of 2 for 'commercial music' and 0.2 for 'library music'.

4. Identification of right holders.

- a. It is the responsibility of producers or their representatives, to provide the entity with accurate and complete information on the recordings whose rights they own, in a timely manner, specifying whether it is 'commercial music' or 'library music', and also indicating the percentage, period and territories in which they hold such rights, and any changes made in their repertoire as soon as possible. To that end, they must use internationally developed standards and tools and/or the tools developed by AGEDI to facilitate this process. This information will be stored in the Repertoire Database (BDR) and used to assign recordings' ownership.
- b. Therefore, AGEDI will turn to the information stored in the BDR to identify the right holders of recordings that, according to the information defined in paragraph 2 above, have been used by a specific user, or group of users, in a given period.
- c. AGEDI will do its best to identify and locate in the BDR all the recordings used, defining the most appropriate procedures in each case, which will depend mostly on the quality of the information on available uses (for example, if such information is available in electronic format, if ISRC information is included, etc.).
- d. Within a maximum period of three months from the approval of a given distribution share report, those recordings whose right holders cannot be identified will be made available to the members and entities with which AGEDI has signed bilateral representation agreements, so that they have the opportunity to identify recordings from their repertoire that are entitled to a share of royalties. Once verified, said recordings must be entered into the BDR, within a reasonable period of time, so that they can be considered in the present and in future distribution processes.
- e. If, after said period has elapsed, there are still recordings whose right holders cannot be identified or located, such recordings will be published on the AGEDI website together with any other pertinent information available that may help identify or locate the right holder, in the terms set out in paragraph 5 of Article 177 of the IPL.

f. At least on an annual basis, the necessary processes will be carried out to try to identify the right holders of recordings from previous periods that have yet to be identified, provided that the limitation period on the royalties collected has not expired.

5. Distribution information.

a. The distribution information that AGEDI provides to its members must be complete, clear and concise. To the extent possible, AGEDI shall conform to the best approved international practices and standards with respect to said information.

b. In any case, in accordance with the provisions of Article 177(1) of the IPL, at least the following information must be provided on each distribution process:

1) Right and modality to which it refers.

2) Period of accrual.

3) Origin of the royalties collected.

4) Deductions applied.

6. Disputes, documentary accreditation and adjustments.

a. Should more than one producer declare to be the holder of the rights of a recording, for the same period, territory and type of use, and the sum of the rights share claimed by each one exceeds 100%, AGEDI will inform all the affected producers and will retain the corresponding royalties until ownership is clarified or an agreement between them is reached.

b. Owing to the high number of disputes, this process will be carried out in several stages with the aim of reducing the workload for AGEDI and its members and to reduce the volume of royalties retained.

Thus, in a phase prior to the approval of the distribution share report, efforts will be made to resolve disputes over recordings used a high number of times; in the first phase, the recordings under dispute will be made available, for a reasonable period of time, to members and entities with which AGEDI has signed bilateral representation agreements in an effort to settle said disputes; in the second phase, documentation supporting ownership of the recordings still under dispute will be requested.

c. If a producer claims to be the right holder of a recording but has failed to produce support documentation, AGEDI may retain the corresponding royalties until such documentation is forthcoming.

- d. If, after the closing of the distribution and payment process, it is found that amounts have been incorrectly distributed to a given right holder, AGEDI will adjust the excess amounts paid as soon as possible, and may reduce the amount to be paid to that right holder in subsequent distribution process.
7. Approval of the schedule and distribution share reports.
 - a. The Board of Directors approves the distribution schedule for each year.
 - b. At the proposal of AGEDI services, the Board of Directors is responsible for determining the specific percentages corresponding to each right holder in each distribution process. These amounts are determined by applying the rules, procedures and methodologies set out in these Distribution Rules.

ARTICLE 5. CLAIMS.

In accordance with the provisions of Article 74 of the entity's Articles of Association, claims related to the distribution of royalties are governed by AGEDI's Complaints and Claims Rules.

II. Special distribution rules.

ARTICLE 6. RADIO.

1. Amounts to be distributed.

The sums to be distributed are determined by the amounts paid by the radio stations, minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.

In any case, it must be possible to trace the royalties collected from radio stations and those distributed and paid such that all stages, starting with collection up to distribution to right holders, can be identified.
2. Information on uses.
 - a. Information on the degree of use of sound recordings by radio stations will be obtained, seeking the most complete and appropriate information to reflect effective and specific use, from any of the following sources, where applicable:

- 1) Reports from the radio stations themselves, which according to Article 167 of the IPL are obliged to provide information on their playlists, as long as such information is supplied in the necessary formats and time frames and is complete and reliable. AGEDI reserves the right to verify use by its own means or with the aid of third-party experts that monitor such uses.
- 2) Information provided by companies specialized in the identification of broadcasts using digital prints or similar technologies. Throughout the world, this is currently considered the most reliable alternative failing correct and complete reports from radio stations. In any case, the process used to determine the real use of recordings by radio stations with increasing accuracy is constantly evolving.
 - b. Whenever possible and economically reasonable, the amount collected from a radio station will be divided among the recordings used by said station in the corresponding period. This will at least be the case for the stations that together account for 50 percent of the monies collected during the period subject to distribution.
 - c. For the rest of the radio stations whose level of payment does not justify the cost of having such individualized information, usage information of a group of similar station may be considered following statistical criteria established by an expert third party. Specific information on radio stations whose usage levels are considered representative of a set of stations shall be kept confidential and cannot be communicated to any member of AGEDI to avoid possible distortion of the results.
2. Criteria for distributing royalties to recordings used.

To the extent that the necessary information is available, distribution of the amounts corresponding to each of the recordings broadcast will be made considering the time of use of each recording over the total time of use in the corresponding period. However, if this is not possible, distribution will be based on the number of times each recording has been broadcast, but, in any case, uses with a duration of less than 60 seconds must be weighted downwards, provided this information is available, and will be assigned a coefficient of 0.2.

ARTICLE 7. TELEVISION.

1. Amounts to be distributed.

The sums to be distributed are determined by the amounts paid by the TV stations, minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.

In any case, it must be possible to trace the royalties collected from stations and those distributed and paid such that all stages, starting with collection up to distribution to right holders, can be identified.

2. Information on uses.

a. Information on the degree of use of sound recordings and music videos by TV stations will be obtained, seeking the most complete and appropriate information to reflect effective and specific use, from any of the following sources, where applicable:

- 1) Reports by the TV stations themselves, which according to Article 167 of the IPL are obliged to provide information on their uses, as long as such information is supplied in the necessary formats and time frames and is complete and reliable. AGEDI reserves the right to verify usage by its own means or with the aid of third-party experts that monitor such uses.
- 2) Information provided by companies specialized in the identification of broadcasts using digital prints or similar technologies. Despite improvements in recent years, these sources of information still have a lot of room for improvement when it comes to collecting information on the use of sound recordings by TV stations and remain far from the level of reliability achieved in other sectors, such as radio.
- 3) Information on uses in a different user sector, provided that there is a reasonable link between the two sectors.
- 4) Combinations of different sources of information.

Failing complete and reliable information declared by users and where broadcast identification technologies based on digital prints fail to approach the level of reliability achieved in radio, such that sufficiently valid information on the actual use of phonograms on TV stations is not available, it is agreed that 25% of the distribution share report will be determined by the average use of radio stations, weighted by their collection, and the remaining 75% by the information on uses by TV stations provided by BMAT, or the company that replaces it in the future.

- b. As concerns the part directly related to usage, either declared by the station itself or identified by digital print technologies whenever possible and economically reasonable, the amount collected from a particular TV station will be divided among the recordings used by said station in the corresponding period. This will be the case of stations that, together, account for at least 70 percent of the monies collected during the distribution period for the use of phonograms.
- c. To distribute royalties corresponding to the use of phonograms or music videos by operators that offer broadcast channels, AGEDI will do everything in its power to obtain use data from the original channels that AGEDI itself authorises and, in the

case of channels authorised in other countries, to obtain the usage data from those channels that are authorised outside of Spain and that are broadcast here, managed by the other foreign phonograms' producers entities.

d. For the rest of the stations, whose level of payment does not justify the cost of having such individualised information, the average use by TV stations for which data are available will be taken into account, weighted by their collection.

3. Criteria for allocating royalties to recordings used.

To the extent that the necessary information is available, the allocation of the amounts corresponding to each of the recordings used will be made considering the time of use of each recording over the total time of use in the corresponding period. However, if this is not possible, distribution will be based on the number of times each recording has been used, but, in any case, uses with a duration of less than 60 seconds must be weighted downwards, provided this information is available, and will be assigned a coefficient of 0.2.

ARTICLE 8. BACKGROUND MUSIC SERVICES.

1. Amounts to be distributed.

Sums to be distributed are determined by the amounts paid by background music services, minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.

In any case, it must be possible to trace the royalties collected from these services and those distributed and paid such that all stages, starting with collection up to distribution to right holders, can be identified.

2. Information on uses.

a. Information on the degree of use of sound recordings by background music services will be obtained, seeking the most complete and appropriate information to reflect effective and specific use, from any of the following sources, where applicable:

1) Reports from the background music services themselves, which according to Article 167 of the IPL are obliged to provide information on their uses, as long as such information is supplied in the necessary formats and time frames and is complete and reliable. AGEDI reserves the right to verify use by its own means or with the aid of third-party experts that monitor such uses.

2) Information on uses in a different user sector, if there is a reasonable link between the two sectors.

3) Combinations of different sources of information.

- b. Whenever possible, and economically reasonable, the amount collected from a particular background music service will be divided among the recordings used by said service in the corresponding period.
- c. For the rest of the services, whose level of payment does not justify the cost of having such individualised information and which has not been declared correctly by the user, the average use by background music services for which data are available will be taken into account, weighted by their collection.

3. Criteria for allocating royalties to recordings used.

To the extent that the necessary information is available, the allocation of the amounts corresponding to each of the recordings used will be made considering the time of use of each recording over the total time of use in the corresponding period. However, if this is not possible, distribution will be based on the number of times each recording has been used, but, in any case, uses with a duration of less than 60 seconds must be weighted downwards, provided this information is available, and will be assigned a coefficient of 0.2.

ARTICLE 9. NON-INTERACTIVE WEBCASTING.

1. Amounts to be distributed.

Sums to be distributed are determined by the amounts paid by non-interactive webcasting services, minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.

In any case, it must be possible to trace the royalties collected from these services and those distributed and paid such that all stages, starting with collection up to distribution to right holders, can be identified.

2. Information on uses.

a. Information on the degree of use of sound recordings by non-interactive webcasting services will be obtained, seeking the most complete and appropriate information to reflect effective and specific use, from any of the following sources, where applicable:

- 1) Reports from the non-interactive webcasting services themselves, which according to Article 167 of the IPL are obliged to provide information on their uses, as long as such information is supplied in the necessary formats and time frames and is

complete and reliable. AGEDI reserves the right to verify use by its own means or with the aid of third-party experts that monitor such uses.

2) Information on uses in a different user sector, if there is a reasonable link between the two sectors.

3) Combinations of different sources of information.

b. Whenever possible, and economically reasonable, the amount collected from a particular non-interactive webcasting service will be divided among the recordings used by said service in the corresponding period.

c. For the rest of the services, whose level of payment does not justify the cost of having such individualised information and which has not been declared correctly by the user, the average use by non-interactive webcasting services for which data are available will be taken into account, weighted by their collection.

3. Criteria for allocating royalties to recordings used.

To the extent that the necessary information is available, allocation of the amounts corresponding to each of the recordings used will be made considering the time of use of each recording over the total time of use in the corresponding period. However, if this is not possible, distribution will be based on the number of times each recording has been used, but, in any case, uses with a duration of less than 60 seconds must be weighted downwards, provided this information is available, and will be assigned a coefficient of 0.2.

ARTICLE 10. PUBLIC PERFORMANCE.

1. Amounts to be distributed.

Sums to be distributed are determined by the amounts paid by the users, minus the amounts that, according to the law, must be set aside to finance certain activities, as reserve funds that, where applicable, are approved to cover possible claims, and management costs associated with each type of royalty to be distributed.

In any case, it must be possible to trace the royalties collected from these services and those distributed and paid such that all stages, starting with collection up to distribution to right holders, can be identified.

2. Information on uses.

a. Information on the degree of use of sound recordings or music videos by holders of the rights managed by the entity will be

obtained, seeking the most complete and appropriate information to reflect effective and specific use, from any of the following sources, where applicable:

- 1) Reports from users themselves, which according to Article 167 of the IPL are obliged to provide information on their uses, as long as such information is supplied in the necessary formats and time frames and is complete and reliable. AGEDI reserves the right to verify use by its own means or with the aid of third-party experts that monitor such uses.
 - 2) Information provided by companies specialized in the identification of usage by means of digital prints or similar technologies.
 - 3) Reports made by companies providing background music services.
 - 4) Own or third-party statistical studies.
 - 5) Information on uses in a different user sector, if there is a reasonable link between the two sectors.
 - 6) Combinations of different sources of information.
- b. Whenever possible, and economically reasonable, the amount collected from a user will be divided among the recordings used by said user in the corresponding period. For users whose level of payment does not justify the cost of having such individualized information, uses of a group of similar users may be considered following statistical criteria established by an expert third party or a combination of information sources.

Thus, in specific sectors such as clubs and discotheques, when it is not possible to get valid information declared by these users or provided by companies specialized in the identification of usage through digital prints or similar technologies, statistical studies designed by third-party experts who estimate usage by this type of user based on information available to radio stations, will be used.

For users of background music services, uses declared by these services will be considered whenever possible and economically reasonable. This information will not be considered as a reference for other users if said repertoire is not available for public communication, regardless of the corresponding background music service.

In the case of users where the TV set is the sole source of public communication of phonograms, uses by TV stations shall be considered. If it is not technically possible or economically viable to have this information, uses by TV stations will be taken into account, along with those of other sectors such as radio, background music services and clubs, all weighted by

collection, in those sectors in which the TV set is one of the possible sources of public communication of phonograms, such as in bars and cafeterias, or the case of background music in hotels or gyms.

For all other users, use by radio stations, background music services and clubs will be considered, all weighted by their collection.

3. Criteria for allocating royalties to recordings used.

To the extent that it is technically and economically reasonable, allocation of the amounts corresponding to each of the recordings used will be made considering the time of use of each recording over the total time of use in the corresponding period. However, if this is not possible, distribution will be based on the number of times each recording has been used, but, in any case, uses with a duration of less than 60 seconds must be weighted downwards, provided this information is available, and will be assigned a coefficient of 0.2.

ARTICLE 11. PRIVATE COPY.

1. Information on uses.

Considering the scope and limits of this regulation, market share of the sale of recorded music on physical carriers in Spanish territory will be considered as the best available approximation.

Said market shares will be calculated by AGEDI based on the quarterly declarations made by members, provided that such information is supplied in the necessary formats and time frames and is complete and reliable. AGEDI reserves the right to verify use by its own means or with the aid of third parties.

2. Distribution periods.

Royalties will be distributed and paid quarterly, within a maximum period of 6 months from the closing of the period in which the collection was made.

ARTICLE 12. BILATERAL AGREEMENTS.

1. Amounts to be distributed.

Sums earmarked for distribution will be determined by the net amounts paid by the entities with which AGEDI has signed bilateral representation agreements, in which their management costs have already been discounted and, where appropriate, tax withholdings or any other applicable deductions have been made.

In this case AGEDI will not apply any kind of additional discount, not even on its own management costs, in accordance with the international agreements reached in this respect. In any case, it must be possible to trace the royalties collected from these entities and those distributed and paid to those members who have entrusted AGEDI with collections in the corresponding territory such that all stages, starting with collection up to distribution to right holders, can be identified.

2. Information on uses.

In these cases, the responsibility to obtain the information on uses and to distribute royalties to AGEDI members in an equitable, diligent and exact manner lies with the entities with which AGEDI has signed the bilateral representation agreements.

3. Distribution periods.

The distribution and payment of royalties will be made within a maximum period of 6 months of receipt, in accordance with the provisions of article 177(2) of the IPL.

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