

ANNUAL REPORT
2015// TONO



DEAR READER

We constantly hear that the music industry is going through an era of major changes. This is old news. TONO has been in a process of flux for 20 years, ever since TONO started licensing digital music distribution on the Internet, and TONO's members began posting their own music on the Internet for distribution to fans and supporters.

The structural changes do not appear to be equally comprehensive in all territories. We often see them first in the Nordics. To a great extent, we live in a thoroughly digitised society, at least compared with many other regions of the world. Rapid technological advances in our area, added to social and cultural differences, are the main explanations for why the most pronounced changes appear first here in the north. If we look at the sale of music on physical media, significant markets such as Germany and other large countries on the Continent are at the forefront. We also see the same phenomenon in other parts of the world, where the technological revolution has not yet come as far as in northern Europe.

At this point, the technological revolution has outrun the protective function of copyright, for the first time since the enactment of modern copyright legislation in the 1960s. The development of law in our field has been less than impressive over the past 15 years. Unfortunately, the multiple EU directives and the Recommendation from 2005 have not offered solutions to the copyright challenges of the past 15 years.

Here in Norway, the Ministry of Cultural Affairs recently presented a draft for a new Copyright Act, claiming it will strengthen rightsholders' position and re-establish the balance of the law between the interests of rightsholders and large users and distributions.

This draft bill does not address the very largest players' relationship to copyright; Facebook and YouTube, for example. Today, these players are able to hide behind the provisions of directives (the E-Commerce Directive) and national statutory provisions (the E-Commerce Act), which offer a position of freedom from responsibility relative to the exclusive rights provisions enshrined in copyright legislation. National legislators will probably say that the changes in the legal regimes in this area are largely being made at the EU directive level. The assignment of responsibility for services such as YouTube and Facebook must take place in Brussels and possibly in the USA, by adopting amendments to directives, or by changing the way directives are interpreted.

Our impression is that politicians in Brussels and other places have opened their eyes to the fact that the vast economic growth engendered by these services must be shared with those who deliver the content. We are primarily talking about music, but also about films and other copyright-protected content.

The Ministry of Cultural Affairs' draft of a new Copyright Act implies the presentation of an entirely new act. However, it is not easy to identify the major changes in our area. We have noted that it has been suggested that the term "creator" ("opphavsmann" in Norwegian, a male term) be replaced by the more gender neutral term "originator" ("opphaver"). Naturally, this will be adopted by the Norwegian parliament.

Further, the Ministry wishes to introduce provisions prohibiting streaming from illegal sources when this has obviously been made available to the general public on the Internet, and when it could harm the creator's financial interests to a significant degree. Here, the Ministry is obviously addressing illegal film services.

TONO is disappointed that the Ministry has not decided to introduce a dispute resolution regime that could have spared rightsholders, music providers and the judicial system from wasting unnecessary time and money. Today, rightsholders are forced to go through the common judiciary system for decisions on remuneration issues. This is time-consuming and expensive, and the court will only be able to hand down decisions after the fact. This could have been resolved simply by establishing a dispute resolution body like those found in other countries' copyright legislation.

I have saved the best news for last. It is a great pleasure to report that 2015 was a record year for TONO. We generated revenues of nearly MNOK 600 (approx. MEUR 64.8), up nearly 20 per cent from 2014. One significant reason for this is a settlement in the media area, and that we once again saw an increase of more than 9 per cent from online sales. Revenues from concerts also increased steeply. Revenues from abroad climbed by 25 per cent for several reasons: The combination of many Norwegian hits abroad, improved documentation of works in other territories, and a low NOK exchange rate. We believe that 2016 can turn out to be at least as good for Norwegian music abroad as 2015 was.



Sincerely,
Cato Strøm,
Chief Executive Officer

DIRECTORS' REPORT 2015

Status and future development

TONO is a cooperative that manages the performance and mechanical rights of 27 756 Norwegian rightsholders. In addition, TONO has reciprocal agreements with 70 foreign sister companies. Thus TONO manages a global repertoire of copyright-protected music on Norwegian territory. TONO has transferred the management of its rightsholders' mechanical rights to the Nordic Copyright Bureau (NCB) in Copenhagen, which is owned by the Nordic collective rights management organisations KODA (Denmark), STIM (Sweden), STEF (Iceland), Teosto (Finland) and TONO.

TONO is headquartered in Oslo at Tøyenbekken 21, 0134 Oslo, Norway.

In 2015, there were eight Board meetings and three Board committee meetings.

Administration contracts

At 31 December 2015, TONO had administration contracts with 27 756 rightsholders. In 2015, 1 575 new rightsholders joined, 11 of which were music publishers.

By comparison, on 31 December 2014, there were 26 181 rightsholders. In 2014, 1 531 new rightsholders joined, 15 of which were music publishers.

The gender breakdown among the members is 20 per cent female and 80 per cent male.

Publisher members account for 1 per cent.

Shareholders

At 31 December 2015, there were 1 412 registered shareholders in TONO.

At 31 December 2014, there were 1 339 registered shareholders in TONO.

Financial situation

TONO reported record-high revenues in 2015, reflecting total growth of 17.63 per cent to NOK 588 516 050. Distribution less deductions for expenses climbed by 19.67 per cent. Costs came to 14.33 per cent of the funds for distribution.

TONO's accounts have been prepared in accordance with the requirements set out in the Norwegian Accounting Act of 1998, and are in compliance with the requirements embodied in current legislation, regulations and generally accepted Norwegian accounting practices.

The Norwegian Accounting Act of 1998 entailed major changes in the recognition of pension costs in 1999. As a result of this, TONO recognises negative equity.

Originally, this effect came to minus NOK 11 026 446, but as expected, this has been reduced significantly in subsequent years. In 2013, negative equity increased once again due to the implementation of pension liabilities.

At 31 December 2015, the total effect of commitments charged against equity was NOK 11 588 759.

Inasmuch as TONO's net income for distribution accounts for about 85 per cent of its revenues each year, as well as the fact that the net income for distribution is at all times what is left after all expenses have been deducted, it is the Board's opinion that TONO's financial results for 2015 are good, and that the organisation's financial position is strong. It is thereby a going concern, entailing no risk.

TONO has a comprehensive portfolio under management at all times. The goal is to obtain the highest possible return with the lowest possible risk. TONO's conservative investment strategy guarantees stable investment performance. The individual investments are to be among those with the lowest risk in their asset class. The risk is reduced further by having a well-diversified portfolio, and TONO patronises several financial players in order to reduce management risk.

TONO manages its ownership of the organisation's premises in Sameiet Gallery through its wholly-owned subsidiary Harmoni AS.

Market trends

In January 2015, a settlement was concluded between Norwaco and the largest cable network operators and the largest commercial TV companies. This has brought TONO significant back payments.

We have seen a favourable revenue trend again in 2015 in several performance areas. There is still considerable growth in the market for digital music usage and new on-demand subscription services. From 2014 to 2015, TONO's online revenues rose to NOK 101 838 943, an increase of more than 9.11 per cent. In recent years, the market for digital streaming of music and films has been larger than that of the sale of physical copies.

TONO is among the collective rights management societies in the world that has experienced the steepest rise in revenues from streaming services. This is generally due to our agreements with the large, established services such as WIMP and Spotify, which still generate the highest revenues. We also see growth in newer services on the market, e.g. film streaming services, with Netflix as by far the largest player at the moment. TONO is in continuously in negotiations with various suppliers of online film services. We expect to generate a growing revenue stream in these areas.

Revenues from the concert market have increased significantly in recent years, and the results for 2015 were good. TONO is now stepping up its level of activity aimed at concert organisers and the event market further.

We also see satisfactory trends in other areas under TONO's management. The competition for customers in the background music segment is growing, as providers of license-free music are becoming increasingly more active. TONO's revenues in this area have nevertheless increased, and in the future we will secure our position by increasing our external sales activities.

There were no special circumstances in 2015 that had a significant impact on operations.

TONO's staff

At the end of 2015, TONO had 65 permanent employees, five of whom work part-time. In 2014, the number permanent employees was 64, five of whom worked part-time. TONO's goal is full equality between female and male employees. This means that there shall be no genderbased discrimination with regard to salaries, career advancement opportunities or recruitment. There are 37 women and 28 men on TONO's staff.

Two men and three women are employed in part-time positions. The average age for all staff members is 44.1 years (42.9 for women and 45.8 for men).

The average monthly salary for all female employees at the end of 2015, managers included, was NOK 44 077.

The average monthly salary for male employees, managers included, was NOK 56 987. The higher average wage for men is due to a higher proportion of men than women in managerial positions.

Internal control, HSE (health, safety and the environment)

Thanks to the Working Environment Committee (WEC), comprised of staff representatives and management, HSE work has been systematised. WEC meetings are held on a regular basis. At least two meetings each year are devoted to sickness absence.

TONO has an IA (Inclusive Working Life) agreement, which is a cooperation agreement between individual companies

and the Norwegian Labour and Welfare Administration (NAV). The primary goal of the agreement is to accommodate everyone who can and wants to work full or part time. In 2015, sickness absence was 2.8 per cent, compared with 4.5 per cent the year before. Sickness absence is followed up in accordance with the Inclusive Working Life agreement and provisions of the Working Environment Act.

TONO does not engage in activities that pollute the environment.

Employer responsibility to promote gender equality and prevent discrimination

TONO's goal over time has been to achieve an approximately 50/50 breakdown between women and men in its staff. At 31 December 2015, there were 56.9 per cent female employees and 43.1 per cent male employees.

Women and men in comparable positions are paid equally. Five employees work in part-time positions of their own volition, partly due to family obligations and partly due to functional disabilities.

Compassionate leaves and leaves to provide family care are equally divided between men and women, but there is more sickness absence among women than among men.




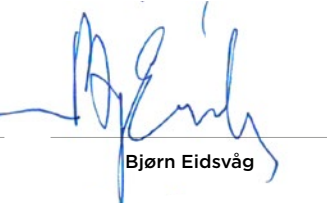



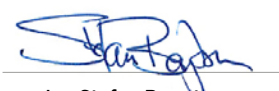
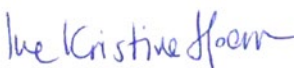



TONO devotes attention to gender equality, and the statistics show we are in compliance with the provisions of the Gender Equality Act.

TONO's Articles of Association include an article stating that each gender is to have at least 40 per cent of the seats on TONO's Board of Directors.

TONO's 65 employees come from a broad range of ethnic backgrounds. We have co-workers from all the Scandinavian countries and the rest of Europe, as well as from Africa, Asia and the USA.

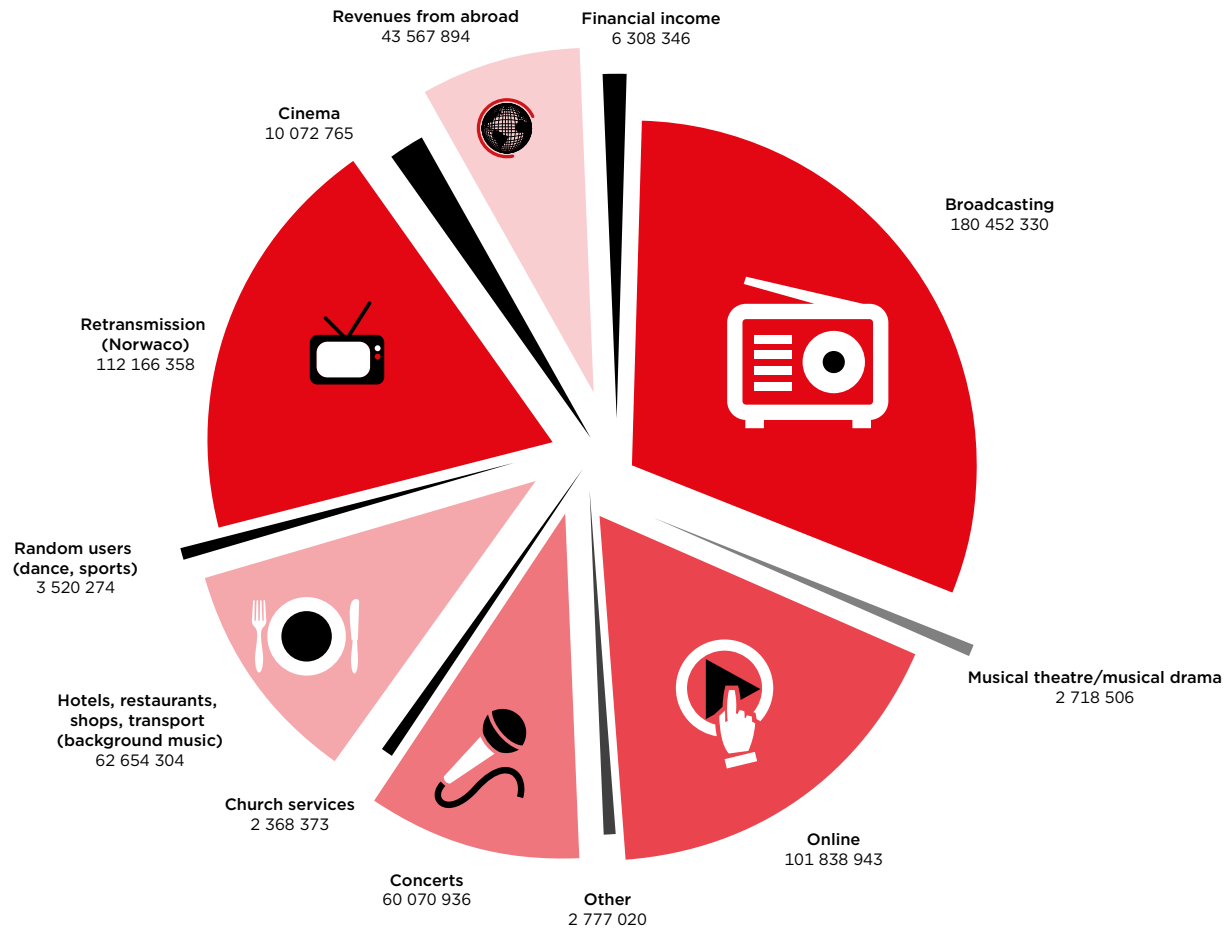
We would therefore maintain that TONO promotes equal opportunity in keeping with the purpose of the Act.

Oslo, 19 March 2016

			
Bendik Hofseth Chair of the Board of Directors	Bjørn Bolstad Skjelbred Deputy Chair	Åse Hedstrøm	Bjørn Eidsvåg
			
Ingrid Kindem	Rita Engedalen	Stine Lieng	Jan Stefan Bengtsson
			
Ine Kristine Hoem	Ellen Tove Gunleiksen Employee Director	Wegar Berg Gundersen Employee Director	Cato B. Strøm Chief Executive Officer

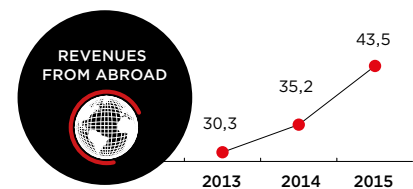
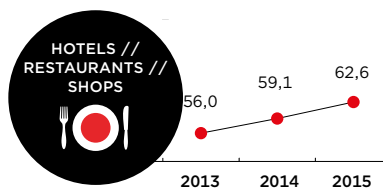
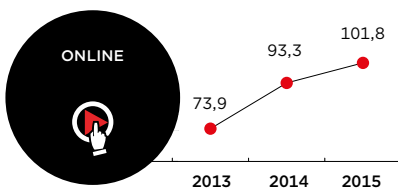
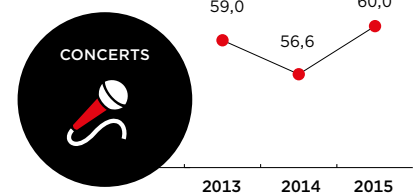
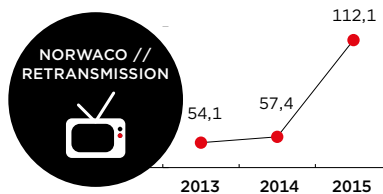
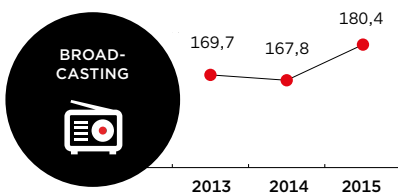
OVERVIEW OF TONOS INCOME // 2015

TONO can report record high revenues in 2015, with a year-on-year growth of 17,63 per cent to NOK 588 516 050. Distribution less costs increased by 19,67 per cent, while costs were equivalent to 14,33 per cent of the funds for distribution.



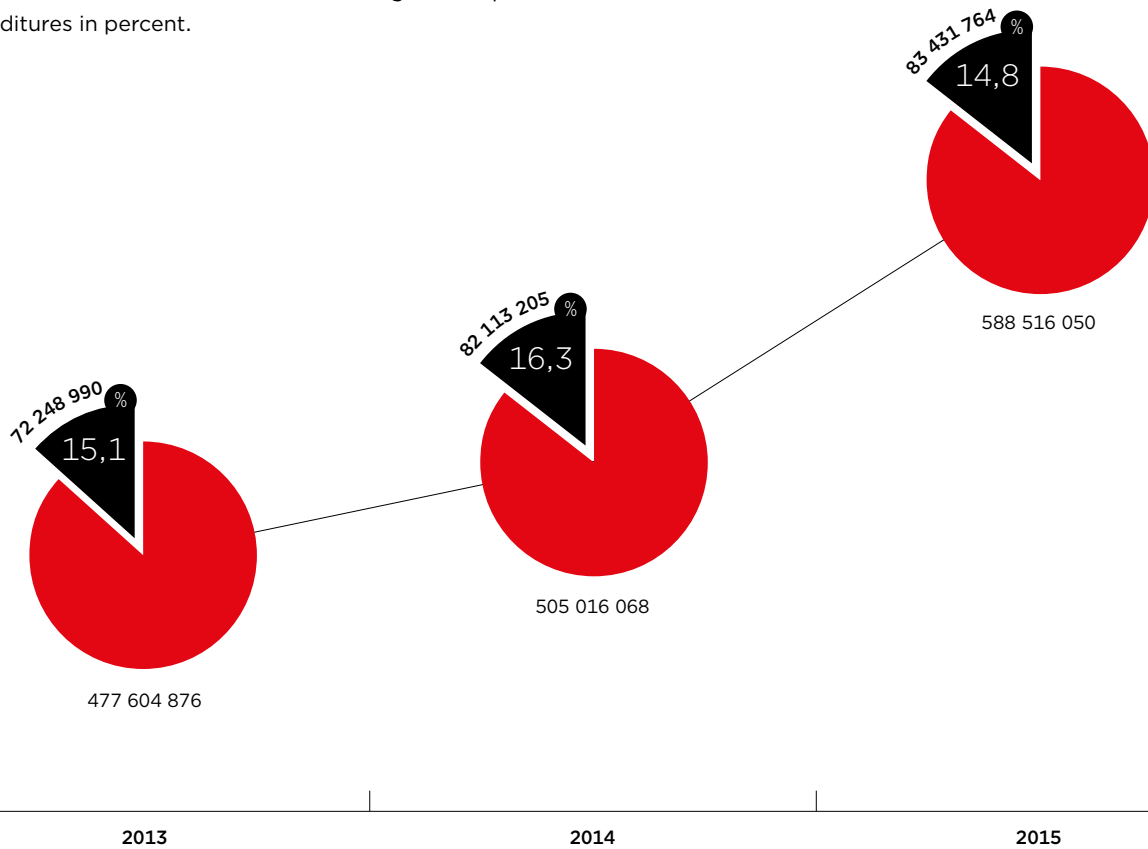
DEVELOPMENT, SOURCES OF INCOME

Numbers in mill NOK



TREND IN REVENUES AND EXPENDITURES // 2013-2015

Revenue before 2% deduction to the Norwegian Composers Fund.
Expenditures in percent.



DISTRIBUTION // 2006-2015

The graph below shows performance trends over the past 10 years.
The result is the amount added to the funds available for distribution each year.



DISTRIBUTION, AMOUNTS DISBURSED

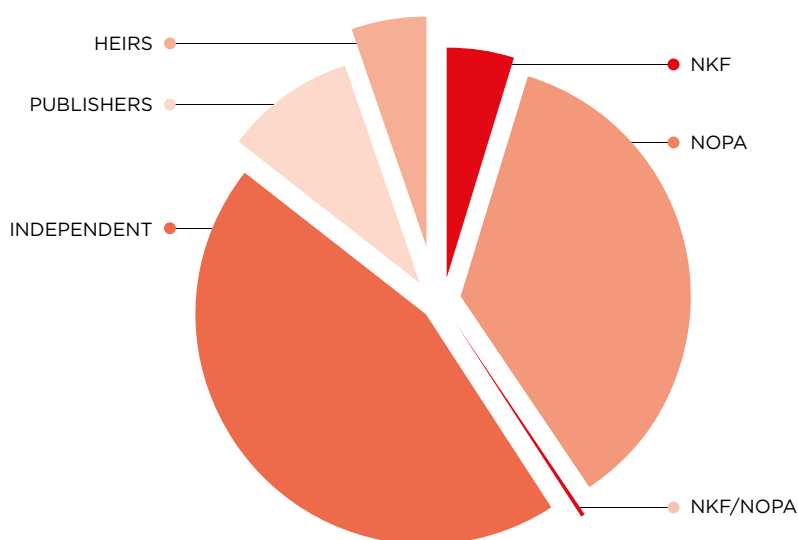
The information below shows how TONO's remunerations were distributed among various member groups in 2015.

According to the Norwegian Act on Cooperatives terminology, those who have an administration contract with TONO, and in addition have earnings that qualify to vote at the general assembly, are the members of TONO (for historic reasons, TONO in its by-laws uses the term "andelshavere", which means "shareholders"). Those with administration contract, but not earnings which qualify to vote at the general assembly, are referred to as "ordinary members". However, in day-to-day terms, all of TONO's rightsholders are referred to as "members". The term "Organised" refer to those members who are associated with the associations NOPA (The Norwegian Society of Composers and Lyricists), NKF (Norwegian Society of Composers) and Musikkforleggerne (The Norwegian Society of Music Publishers)

DISTRIBUTION, SHAREHOLDERS AND ORDINARY MEMBERS	Amount	Average amount
Shareholders	91 973 399	64 407
Ordinary members	48 131 221	3 340
Total	140 104 620	

DISTRIBUTION BY MEMBER CATEGORY	Amount	Average amount
Organised NKF	6 778 782	37 870
Organised NOPA	49 877 627	48 900
Organised NKF/NOPA (double membership)	628 000	25 120
Independent	62 354 807	4 702
Publishers	13.433 582	70 703
Heirs	7 031 821	6 041
Total	140 104 620	

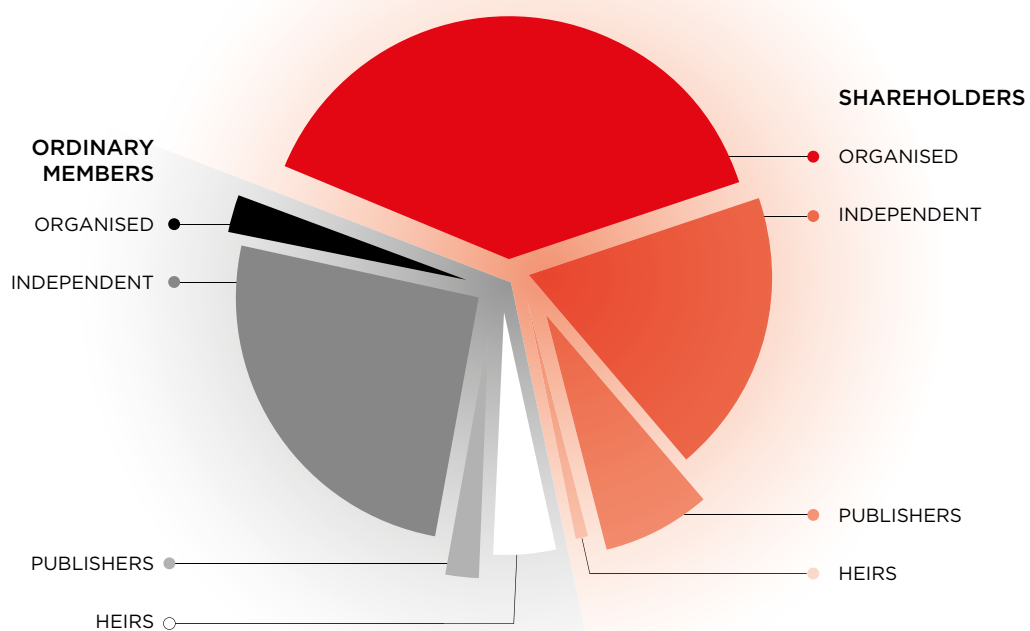
DISTRIBUTION BY MEMBER CATEGORY



DISTRIBUTION ORDINARY MEMBERS	Amount	Average amount
Organised	3 281 980	7 293
Independent	35 780 930	2 831
Publishers	3 151 545	18 323
Heirs	5 916 766	5 149
Total	48 131 221	

DISTRIBUTION SHAREHOLDERS	Amount	Average amount
Organised	54 002 430	66 303
Independent	26 573 876	42 792
Publishers	10 282 037	571 224
Heirs	1 115 055	74 337
Total	91 973 398	

DISTRIBUTION, ORDINARY MEMBERS AND SHAREHOLDERS



DISTRIBUTION TO AND FROM ABROAD

At the end of 2015, TONO had 66 reciprocal agreements with sister companies in other countries. Some of the agreements cover several countries and, collectively, they mean that TONO is represented in more than 100 countries and territories. The reciprocal agreements entail that the companies claim remuneration for public performances of each other's repertoires in their respective countries and territories, and then pay the remuneration back to the various companies to be passed on to the rightsholders as compensation for the works performed.

INTERNATIONAL DISTRIBUTION

Remuneration to foreign rightsholders from TONO added up to NOK 185 115 609 in 2015. The comparable figure for 2014 was NOK 155 174 387. In 2013, the amount was NOK 167 321 491.

The table below shows a list of what TONO has distributed to some sister companies over the past three years.

The figures do not reflect exactly how much of the individual country's repertoire is performed in Norway. For example, the payments to STIM are largely for Anglo-American repertoire because the repertoire has a 'sub-publisher' in Sweden. The table includes remuneration claimed by Norwaco, and which is largely passed on to STIM and PRS for further distribution to rightsholders. The table does not include figures from online activities, since they are billed through NCB/NMP in Copenhagen on behalf of TONO.


COMPANY/COUNTRY	Distributed 2015	Distributed 2014	Distributed 2013
AKM, Austria	525 754	495 296	483 043
APRA, Australia	2 405 062	1 741 916	1 887 337
ASCAP, USA	18 610 789	16 630 740	18 286 238
BMI, USA	16 078 961	13 911 591	14 520 766
BUMA, The Netherlands	509 546	518 945	681 133
GEMA, Germany	3 712 375	3 209 495	3 770 741
JASRAC, Japan	109 796	78 818	243 912
KODA, Denmark	9 459 197	5 491 132	6 172 273
OSA, Czech Republic	80 322	80 130	178 284
PRS, England	44 243 695	47 540 277	49 878 569
SABAM, Belgium	393 486	332 968	390 711
SACEM, France	6 281 717	5 961 684	6 414 895
SGAE, Spain	478 304	401 627	460 560
SIAE, Italy	597 256	649 379	805 758
SOCAN, Canada	2 000 980	2 119 863	1 968 036
STEF, Iceland	242 482	135 857	127 563
STIM, Sweden	74 400 410	52 486 884	57 045 931
SUISA, Switzerland	353 265	372 741	459 147
TEOSTO, Finland	1 297 259	837 681	863 561
ZAIKS, Poland	304 112	212 434	346 972
Other	3 030 841	1 964 929	2 336 061
TOTAL	185 115 609	155 174 387	167 321 491



DISTRIBUTION FROM ABROAD

Altogether, revenues of NOK 43 567 894 were recognised from foreign sister companies as payment for the use of TONO's repertoire in other countries in 2015. The comparable figure for 2014 was NOK 35 221 806, and NOK 35 271 014 in 2013. Part of the explanation for the strong growth is the weak Norwegian NOK exchange rate. The revenue flow can also vary as a result of formal claims from the tax authorities in some countries. Below is a list of payments from the countries from which TONO receives the most remuneration.

SELSKAP/LAND	Received 2015	Received 2014	Received 2013
AKM, Austria	511 930	434 687	498 497
APRA, Australia	717 697	577 435	391 063
ASCAP, USA	1 478 865	1 085 267	575 887
BUMA, The Netherlands	1 388 327	1 252 684	1 124 568
GEMA, Germany	6 919 360	5 083 059	3 677 958
JASRAC, Japan	1 351 976	792 712	897 106
KODA, Denmark	8 161 001	9 003 398	7 134 138
PRS, England	3 503 048	3 077 087	1 635 062
SABAM, Belgium	702 744	291 831	559 141
SACEM, France	2 974 692	1 756 186	1 387 773
STIM, Sweden	8 343 688	5 849 730	6 455 359
SUISA, Switzerland	1 564 186	920 337	724 168
TEOSTO, Finland	221 078	1 912 197	1 601 179
BMI, USA	516 868	237 912	197 574
Other	5 212 434	2 947 284	3 411 541
TOTAL	43 567 894	35 221 806	30 271 014



Want to know
more about TONO?

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