annual report 2017// **tono**

- DODRATOR

DEAR READER

TONO experienced record growth in 2017, as our net income for distribution to rightsholders increased by 27 per cent. TONO's gross turnover in 2017 came to MNOK 661. Costs were cut by MNOK 1 relative to 2016, bringing them down to below the 2014-level.

The areas featuring the strongest growth are media, concerts and revenues from Norwegian music used outside of Norway. It is clear that Norwegian music has picked up considerable momentum abroad and, naturally, streaming services, radio/TV and concerts are the main contributors to the growth in other markets.

2017 was coloured by the efforts invested in framing Norway's new Copyright Act. It turns out that there is very little willingness to compromise between creators, artists and performers on the one side, and broadcasters and producers on the other. The bill submitted by the Ministry of Cultural Affairs to the Storting, Norway's parliament, in April 2017, gave the impression of being a producer-friendly document devised at the expense of the creators, despite the fact that the Government had originally stated that the new act was to improve the position of the rightsholders. This occasioned intense reactions on the part of the creators, especially those from the music world, film workers and actors. Broadcasters and producers are far more interested than before in buying the rights to intellectual property outright for use in audiovisual productions. This is the main reason that §71 is worded the way it now is in the bill. The main problem is that this leads to a David and Goliath relationship between the parties. Broadcasters, distributors and producers represent a group with buying power of more than NOK 20 billion. It goes without saying that creator and performer groups are relatively powerless against such a counterpart. Even the management organisations pale by comparison. This means that there is little consolation in the fact that the bill includes a provision stating that creators and performers are to receive reasonable remuneration. What is more, a provision regarding reasonable remuneration does not make much sense as long as there is no dispute resolution mechanism associated with it. For financial reasons, no creators or performers dare to bring such daunting opponents before the ordinary judicial system.

As the bill stands today, it does not contain much that strengthens the creator and performer side in the way

we had reason to believe it would when the Government sent out the consultation paper in 2016. However, we are confident that the past half year of political meetings in the parliament will help to redress the balance of power between stakeholders.

Much has been said and written about the Value Gap or Transfer of Value (ToV). In brief, rightsholders' have a legitimate claim for remuneration when their works and performances are used on social media such as Facebook and YouTube. The latter two companies generate tremendous revenues for their owners, while the rightsholders on whose backs they earn a large part of those revenues, receive little or nothing. Facebook and YouTube hide behind an outdated legal regime that is 20 years old. In the EU, a legislative process is currently unfolding, and we believe it will help regulate the gap between today's value creation from user-generated services, their owners, and the rightsholders. It is positive that Norwegian politicians have shown a great deal of understanding for the rightsholders in this case, even though the bill has not proposed any statutory regulation of the relationship between the Copyright Act and e-commerce legislation.

The Nordic cooperation between KODA, TEOSTO and TONO stands stronger than ever through the joint venture Polaris Nordic AS. Together, the companies develop backend process solutions to streamline the management of the rightsholders' works. Polaris Nordic has founded Polaris Future Lab, a unit intended to simplify work processes through new IT solutions and machine learning.

Sincerely,

Cato Strøm Chief Executive Officer *Oslo, 16 April 2018*



Cato Strøm, Chief Executive Officer

DIRECTORS'REPORT 2017

Current status and future development

TONO is a cooperative that manages performance rights and mechanical rights to music. In addition to individual management contracts with approximately 30 000 rightsholders, TONO has reciprocal representation agreements with 74 foreign sister organisations. Thus, TONO manages a global repertoire of copyright-protected music on Norwegian territory. TONO has transferred the management of its rightsholders' audio recording 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 (Norway).

TONO is headquartered at Tøyenbekken 21, 0134 Oslo.

In 2017, there were eight Board meetings and two Board Committee meetings.

Rights management contracts

At 31 December 2017, TONO had rights management contracts with 30 948 rightsholders. In 2017, 1 645 new rightsholders joined, 10 of which were music publishers.

By comparison, on 31 December 2016, there were 29 272 rightsholders. In 2016, 1 516 new rightsholders joined, 11 of which were music publishers.

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

Music publishers account for 1 per cent of the membership.

Unit holders

At 31 December 2017, there were 1 566 registered unit holders in TONO.

At 31 December 2016, there were 1 484 registered unit holders in TONO.

Creators make up 98.7 per cent of the unit holders, 15.8 per cent of whom are women. 1.3 per cent of the unit holders are music publishers.

Financial matters

In 2017, TONO had a turnover of NOK 661 321 235. This is an increase of 22 per cent compared with 2016. After a deduction of 2 per cent for the Norwegian Composers' Fund, losses and administrative expenses, net income for distribution came to NOK 564 868 256, up 26 per cent compared with 2016. Costs were equivalent to 12.12 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 was minus NOK 11 026 446.

At 31 December 2017, the total annual effect of liabilities charged against equity was NOK 8 931 671. The year before, this obligation was for NOK 11 938 975.

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 2017 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 ensures stable investment performance. The individual investments shall 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 service providers in an effort to reduce management risk.

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

Market trends

TONO's market areas are stable, but there is reason to note that the concert market is still seeing substantial growth, although the percentage of the increase has tapered off somewhat from previous years. The increase from 2016 to 2017 was more than 12 per cent for the concert area. The market for digital streaming of music and film is still expanding. In 2017, income from online activities generated NOK 131 980 155.

The segment for TV distribution has also shown a steep rise of 33.58 per cent, bringing the total to NOK 85 764 650.

The tendency to compete for customers in the background music segment has grown keener over the years as providers of non-licensed music are becoming increasingly active, but this tendency diminished somewhat in 2017. The Storting's treatment of the bill for a new Copyright Act, St. prp. 104 L, addresses this issue, and clarification is expected in spring 2018 about whether users of this type of buy-out music will have to pay Gramo or not.

The sale of phonograms is declining continuously, and NCB's turnover has dropped significantly. This led NCB's Annual General Meeting in 2017 to decide to move NCB's operations to KODA's administration, at the same time as it will continue as a legal entity with its own Board, as previously. This has proven an expedient solution for the organisation KODA and its owners as well.

The use of Norwegian music abroad also demonstrated substantial growth in 2017. Revenues from abroad increased by 67 per cent, compared with 2016, to NOK 68 472 166.

There were no special circumstances in 2017 that had a significant impact on TONO's activities.

TONO's staff

At the end of 2017, TONO had 64 permanent employees, six of whom work part-time. In 2016, the number of permanent employees was 63, five of whom worked part-time. TONO's goal is full equality between female and male employees. This means we try to ensure there is no gender-based discrimination in respect of salaries, career advancement opportunities or recruitment. There are 36 women and 28 men on TONO's staff. Three men and three women are employed in part-time positions. The average age of all staff members is 45.8 years (44.6 for women and 47.4 for men).

The average monthly salary for all female employees at the end of 2017, managers included, was NOK 47 515. The average monthly salary for male employees, managers included, was NOK 61 254. The higher average wage for men is because there is 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 representatives from the employees' trade unions and management, TONO's 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,

Oslo, 19 March 2018

benlie hat. Bendik Hofseth

Chair of the Board of Directors

Ingrid Kindem

Jørgen Karlstrøm Deputy Chair

Harnsedale Rita Engedalen

- Ellen V. Gunleiksen We Kristive four

Ine Kristine Hoem

Ellen Tove Gunleiksen **Employee Director**

a cooperation agreement between an individual company and the Norwegian Labour and Welfare Administration (NAV). The primary goal of the agreement is to accommodate everyone who can and wants to work, be it full time or part time.

In 2017, absence due to illness was 5.41 per cent, compared with 4.42 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 can pollute the outdoor environment.

Employer responsibility for promoting gender equality and preventing discrimination

TONO's goal over time is to achieve an approximately 50/50 breakdown between women and men on its staff. At 31 December 2017, there were 56.9 per cent female employees and 43.1 per cent male employees. Women and men in comparable positions are paid equally.

Six employees work in part-time positions of their own volition, partly due to family obligations at home 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 64 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.

Åse Hedstrøm Kai Robøl

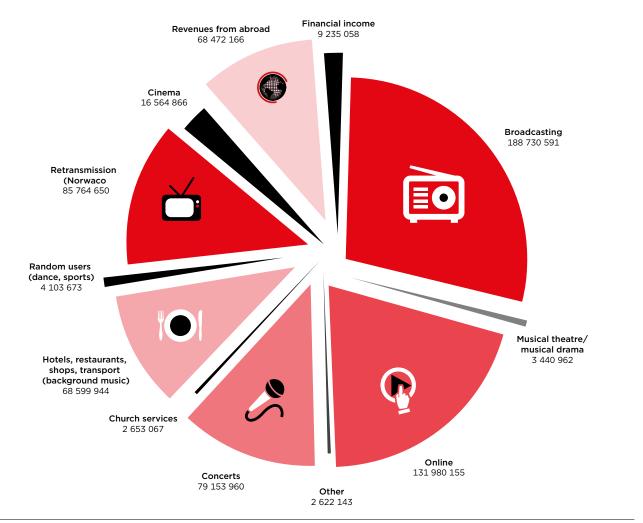
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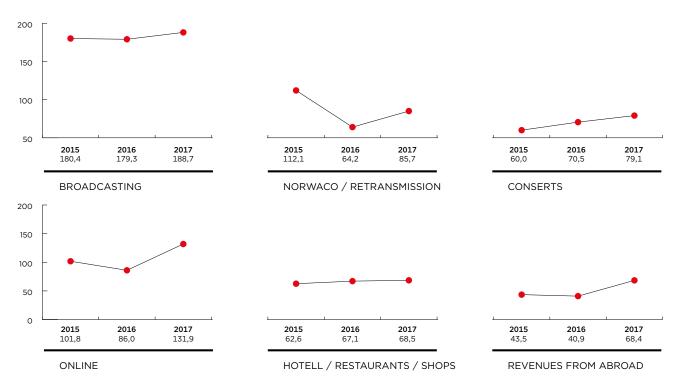
Jan Stefan Bengtsson

Cato B. Strøm Employee Director Chief Executive Officer

OVERVIEW OF TONOS INCOME // 2017



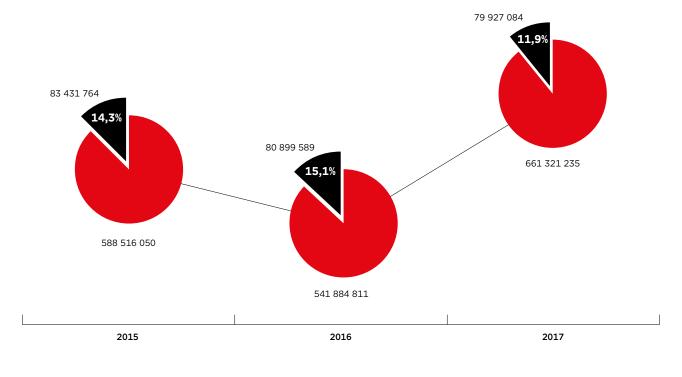
DEVELOPMENT, SOURCES OF INCOME // Numbers in mill NOK



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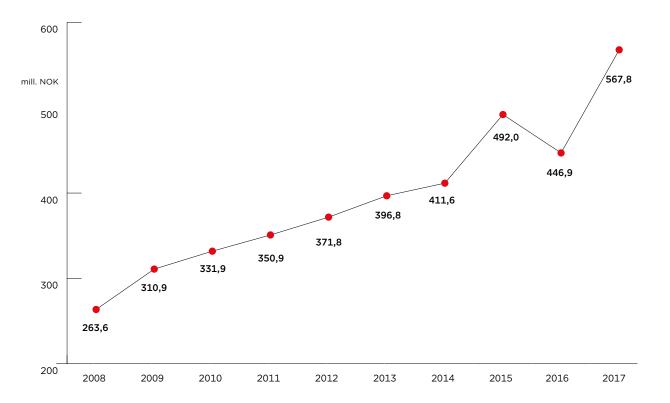
TREND IN REVENUES AND EXPENDITURES // 2015-2017

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



DISTRIBUTION // 2008-2017

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

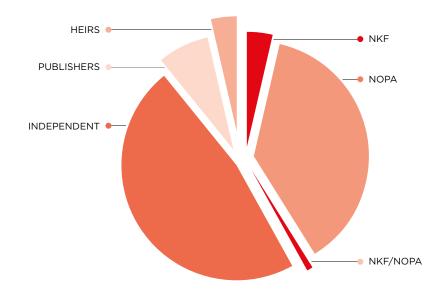
The information below shows how TONO's remunerations were distributed among various member groups in 2017.

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	Members	Average amount
Shareholders	116 029 748	1 551	74 810
Ordinary members	58 946 372	16 942	3 479
Total	174 976 120	18 493	9 462

DISTRIBUTION BY MEMBER CATEGORY	Amount	Members	Average amount
Organised NKF	6 500 307	196	33 165
Organised NOPA	65 521 557	1 125	58 241
Organised NKF/NOPA (double membership)	1 773 523	39	45 475
Independent	82 176 957	15 656	5 249
Publishers	12 723 925	210	60 590
Heirs	6 279 852	1 267	4 956
Total	174 976 120	18 493	9 462

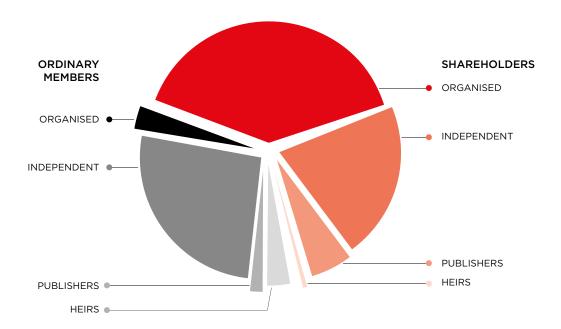
DISTRIBUTION BY MEMBER CATEGORY



DISTRIBUTION ORDINARY MEMBERS	Amount	Members	Average amount
Organised	4 955 095	523	9 474
Independent	45 636 262	14 980	3 046
Publishers	3 221 785	190	16 957
Heirs	5 133 230	1 249	4 110
Total	58 946 372	16 942	3 479

DISTRIBUTION SHAREHOLDERS	Amount	Members	Average amount
Organised	68 840 292	837	82 246
Independent	36 540 695	676	54 054
Publishers	9 502 140	20	475 107
Heirs	1 146 621	18	63 701
Total	116 029 748	1 551	74 810

DISTRIBUTION, ORDINARY MEMBERS AND SHAREHOLDERS



DISTRIBUTION TO AND FROM ABROAD

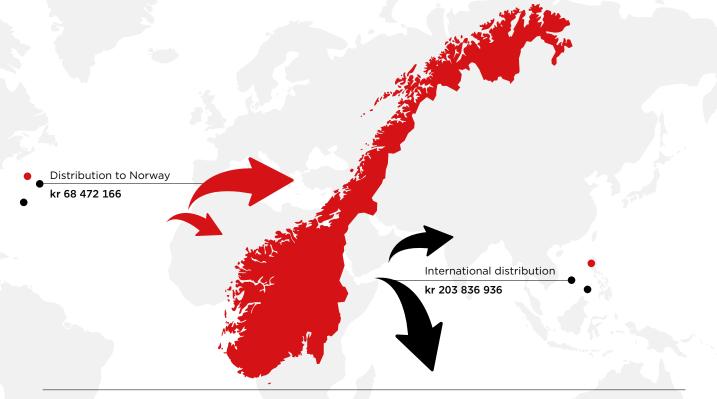
At the end of 2017, TONO had 74 reciprocal agreements with sister societies in other countries. Some of the agreements cover several countries and, collectively, they mean that TONO is represented in more than 100 countries and territories. The reciprocal agreements entail that the companies claim remuneration 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 203 836 936 in 2017. The comparable figure for 2016 was NOK 185 211 710.

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.

COMPANY/COUNTRY	Distributed 2017	Distributed 2016	Distributed 2015
AKM, Austria	556 544	861 400	525 754
APRA, Australia	2 316 518	2 530 561	2 405 062
ASCAP, USA	20 589 460	20 151 186	18 610 789
BMI, USA	20 686 268	18 790 978	16 078 961
BUMA, The Netherlands	586 990	665 003	509 546
GEMA, Germany	4 209 001	4 182 870	3 712 375
JASRAC, Japan	156 573	183 495	109 796
KODA, Denmark	9 155 581	8 513 831	9 459 197
OSA, Czech Republic	116 133	132 794	80 322
PRS, England	50 513 664	47 561 846	44 243 695
SABAM, Belgium	438 448	355 037	393 486
SACEM, France	6 466 605	6 541 253	6 281 717
SGAE, Spain	334 148	378 202	478 304
SIAE, Italy	699 551	633 950	597 256
SOCAN, Canada	2 824 594	2 337 215	2 000 980
STEF, Iceland	130 064	179 442	242 482
STIM, Sweden	77 684 772	65 442 276	74 400 410
SUISA, Switzerland	311 701	333 619	353 265
TEOSTO, Finland	1 611 792	1 734 447	1 297 259
ZAIKS, Poland	58 010	80 255	304 112
Other	4 390 519	3 622 050	3 030 841
TOTAL	203 836 936	185 211 710	185 115 609



DISTRIBUTION FROM ABROAD

In 2017, a total of NOK 68 472 166 was recognised as revenues from foreign sister companies.

In 2016, comparable revenues came to NOK 40 953 824, and in 2015, the figure was NOK 43 567 894. There has been substantial growth in revenues from abroad during the past three years. The decrease in revenues from 2015 to 2016 was primarily because we did not receive payments from GEMA in 2016. In 2017, this late payment was received. There has been a marked increase in revenues from abroad, thanks to more use of Norwegian music.

SELSKAP/LAND	Received 2017	Received 2016	Received 2015
AKM, Austria	1 151 533	627 826	511 930
APRA, Australia	945 647	1 275 438	717 697
ASCAP, USA	2 278 150	1 453 437	1 478 865
BUMA, The Netherlands	2 671 296	1 605 568	1 388 327
GEMA, Germany	15 891 796	0	6 919 360
JASRAC, Japan	1 260 092	1 779 080	1 351 976
KODA, Denmark	10 240 717	9 043 858	8 161 001
PRS, England	0	1 347 519	3 503 048
SABAM, Belgium	855 403	842 909	702 744
SACEM, France	4 791 583	2 473 523	2 974 692
STIM, Sweden	15 175 039	12 938 425	8 343 688
SUISA, Switzerland	1 724 431	1 295 536	1 564 186
TEOSTO, Finland	3 032 416	2 280 408	221 078
BMI, USA	1 216 085	541 883	516 868
Other	7 237 978	3 448 414	5 212 434
TOTAL	68 472 166	40 953 824	43 567 894

Vil du vite mer om TONO?

Kontakt oss på telefon 22 05 72 00, tono@tono.no eller se vår nettside **tono.no**

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