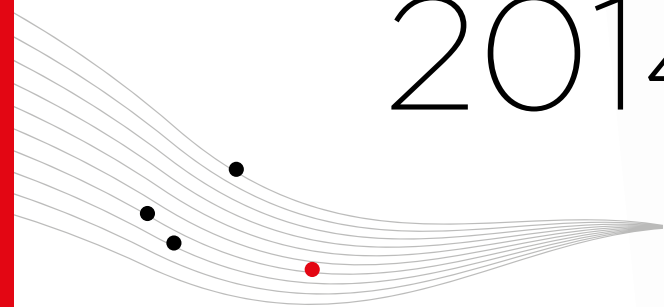


ANNUAL REPORT
2014//TONO



DEAR READER

TONO is growing in terms of both sales and membership. In 2014, TONO's revenues exceeded MNOK 500 for the first time. We welcomed an average of six new members every working day, meaning that we will reach 27 000 Norwegian members in 2015, in addition to the more than 2.5 million foreign members of our sister companies, which we represent on Norwegian territory. This is a gratifying trend at a time when we are constantly reminded that the music industry is changing. There is no doubt about that.

Naturally, it is not just the music industry that is changing. In all types of rights management, technological advances are now challenging the established structures of rights-holders' organisations. Changes in the market have also led legislators (when it comes to copyright, the EU Commission has full and complete sovereignty) to examine the framework conditions that apply for the various rights management companies. The Commission has done this through the so-called CRM Directive adopted in 2014. The EU Commission's focus has been on efficient cross-border management, transparency with a view to management, and good governance.

TONO welcomes statutory regulations that are intended to create a level playing field for all the players on the market. Naturally, however, we want the requirements that apply to Italian rights management organisations, for example, to be just as strict as that apply to the Norwegian organisations. If companies are to compete for rights, the ground rules must also be roughly the same. That being said, proportionality is also an important factor in statutory regulations. Efficient management is not created by imposing a set of regulations on small organisations that would clearly engender more administration, more bureaucracy and higher costs for rightsholders.

We are confident that national legislators' implementation of the CRM directive, scheduled for 2016, will take a proportional approach and be able to balance the various considerations for the interests of society and rights-holders.

At the risk of repeating a cliché ad nauseam: The market's way of accessing music has changed dramatically in recent years. It started when iTunes began to flood into Norway in 2005. Since then, many services have followed suit and iTunes is no longer especially large. Streaming services are now predominant. All genres of music are found there. Many would say that the services are provided far too cheaply. Regrettably, it is tempting to say, YouTube is "even cheaper". There are also other services where music is found, but where payment is not required because they are exempted under the Act. These "exemptions" under the Act are increasingly more of a conundrum, and deeply unfair.

These legal exemptions originated 15 to 20 years ago when the markets were immature, piracy was rampant, broadband development was in its infancy, and the major Internet service providers' (ISP) influence was just as comprehensive as it is today. The US set the ball rolling with its DMCA (Digital Millennium Copyright Act), in which ISPs were exempted from responsibility for copyright-related material that had to flow through their networks, despite the fact that this was a fantastic source of revenue for them. The EU Commission followed up in 2000 with the E-Commerce Directive that also exempted the ISPs from liability, creating the regime known as "safe harbours".

In recent years, it has become increasingly clear that the trend has moved far beyond an exemption from liability that was neither fair nor comprehensible even 15 years ago.

Rightsholders all over the world are now calling for change. Today, the largest service providers pay little or nothing to rightsholders for the content they distribute, i.e. for the very products that help create value for the big companies. This situation punishes the rightsholders and the entire eco-system built on intellectual property rights. In Europe, we are talking about more than 7 million jobs* generated by the creative and cultural industries.

In addition, this freedom from responsibility for the major players poses a threat to the legitimate services which have been established and which pay for the use of copy-right-protected material.

We are now seeing some grounds for optimism since the EU Commission adopted the "Communication on the Digital Single Market Strategy for Europe" on 6 May 2015. In it, the Commission signals its intention to clarify the conditions that apply to intermediaries' use of copy-right-protected material.

This is a step in the right direction, even though we know there is still a long way to go. There will no doubt be powerful resistance on the part of service providers that have the greatest interest in continuing to convey copyright-related content, at the same time as they are safely insulated by a system that leaves them free of responsibility.

The creative and cultural industries account for more than 4% of Europe's GDP*. These industries provide sorely needed jobs for Europe's young adults. We are at the forefront when it comes to the digital distribution of copyright-protected material. In other words, it is also natural for us to be at the forefront when it comes to putting a legal framework into place so that the creative and cultural industries can continue to be the most rapidly growing sector in the European economy.



Sincerely,
Cato Strøm,
Chief Executive Officer

*Source: The survey "Creating Growth - Measuring cultural and creative markets in the EU" (www.creatingeurope.eu)

DIRECTORS' REPORT 2014

Status of activities and trends

TONO is a cooperative that manages the performance and audio recording rights of 26 181 Norwegian rights holders. In addition, TONO has representation agreements with 64 foreign sister societies. Thus, TONO manages a global repertoire of copyright-protected music on Norwegian territory. TONO has transferred the management of its rights holders' audio recording rights to the Nordic Copyright Bureau (NCB) in Copenhagen, which is owned by the Nordic collection societies KODA (Denmark), STIM (Sweden), STEF (Iceland), TEOSTO (Finland) and TONO. TONO is headquartered in Oslo at Tøyenbekken 21, 0134 Oslo.

In 2014, there were eight Board meetings and three Board committee meetings.

Rights management contracts

At 31 December 2014, TONO had rights management contracts with 26 181 rights holders. In 2014, 1 531 new rights holders joined, 15 of which were music publishers. By comparison, on 31 December 2013, there were 24 650 rights holders. In 2013, 1 552 new rights holders joined, seven of which were music publishers.

Members

At 31 December 2014, there were 1 339 registered members of TONO.

At 31 December 2013, there were 1 254 registered members of TONO.

Financial situation

TONO reported record-high revenues in 2014, reflecting total growth of 5.26 per cent to NOK 493 721 664. Distribution less costs increased by 3.73 per cent, while costs were equivalent to 16.33 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. This resulted in TONO recognising negative equity but, as expected, the figure has been reduced significantly since the date of implementation. Initially, this method resulted in an effect of - NOK 11 026 446, but as at 31 December 2012, the figure had been reduced to - NOK 1 240 073. In 2013, the negative equity increased again as a result of the implementation of the pension agreement. At 31 December 2014, the total effect of commitments charged against

equity was NOK 10 926 871.

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 2014 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 we patronise several financial players in order to reduce management risk.

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

Market trends

We have seen a favourable revenue trend again in 2014 in several performance areas. The most pronounced growth was once again in the market for digital music usage and new on-demand subscription services. From 2013 to 2014, TONO's online revenues climbed from MNOK 74 to MNOK 93, marking an increase of more than 25 per cent. The market for digital streaming of music and films has far overtaken the market for the sale of physical copies in recent years.

TONO is among the rights management companies in the world that have experienced the steepest rise in revenues from streaming services. This is generally due to having agreements with the large, established services such as WiMP and Spotify, which still generate the most revenues. We also see growth in newer services on the market, e.g. streaming of films, with Netflix as by far the largest player at the moment.

TONO is in continuous negotiations with various suppliers of online film services. This is expected to generate a growing revenue stream in these areas. Netflix, Microsoft and Apple are among the most main international providers of film services in this area with which TONO has agreements.

Revenues from the concert market have increased significantly in recent years, and the results for 2014 were good. TONO is further enhancing its activities aimed at concert organisers and the event market.

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 non-licensed music are becoming increasingly more active. TONO's revenues in this area have nevertheless increased, and in future we will secure our position by reaching out to a greater extent. There were no special circumstances in 2014 that had a significant impact on operations.

TONOs STAFF

At the end of 2014, TONO had 64 permanent employees, five of whom work part-time. In 2013, there were 68 permanent employees. Eight employees 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. Two men and three women are employed in part-time positions. The average age for all staff members is 43.7 years (43.3 for women and 44.1 for men).

The average monthly salary for all female employees at the end of 2014, managers included, was NOK 42 818. The average monthly salary for male employees, managers included, was NOK 52 136. 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 absence due to illness. TONO has an IA (Inclusive Working Life) agreement, a cooperation agreement between individ-

ual 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 2014, absence due to illness was 4.5 per cent, compared with 5.7 per cent the year before. Absence due to illness 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 to promote gender equality and prevent discrimination

TONO's goal over time is to achieve an approximately 50/50 breakdown between women and men on its staff. At 31 December 2014, there were 56.2 per cent female employees and 43.8 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 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 absence due to illness 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.

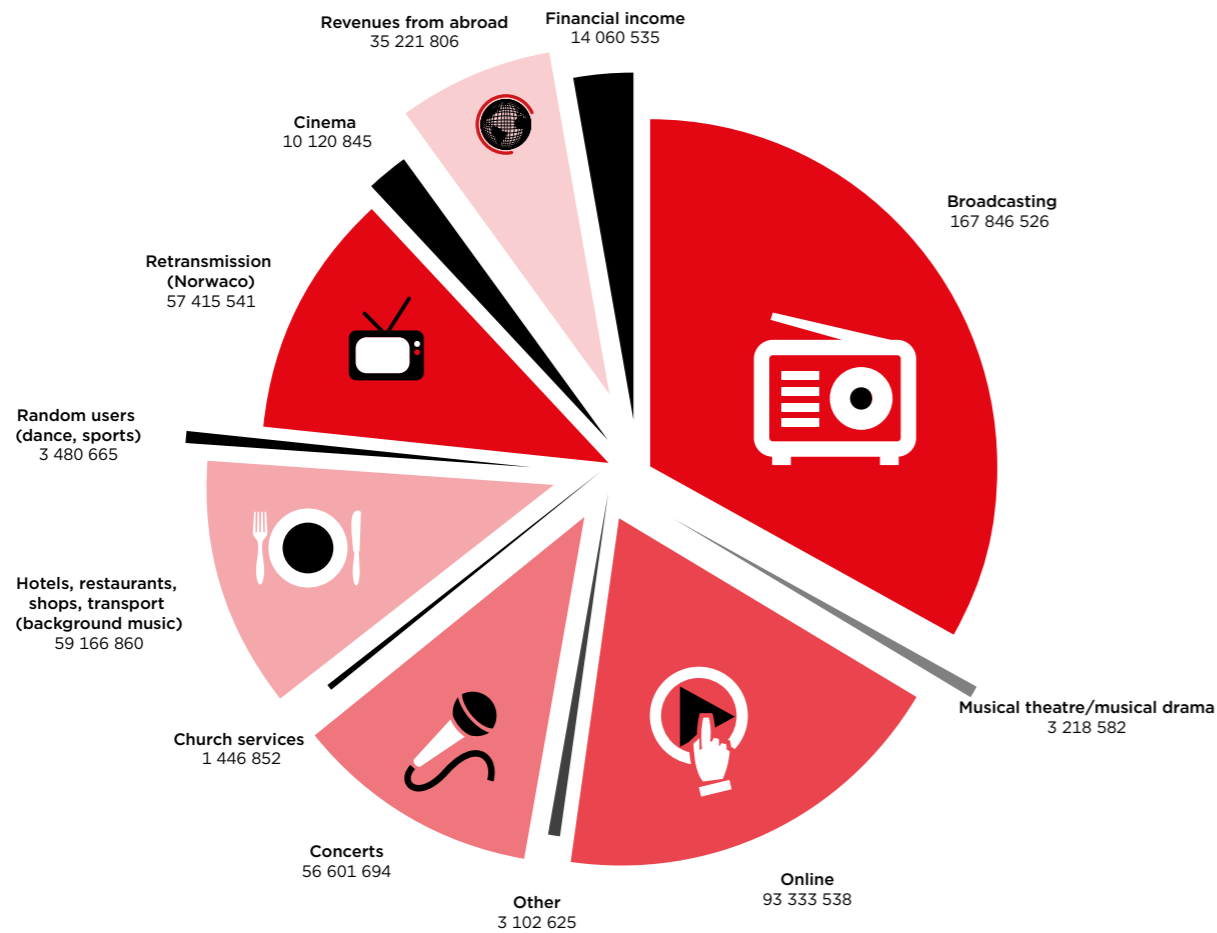
TONO's 64 employees come from a broad range of ethnic backgrounds. We have co-workers from all the Scandinavian countries and the rest of Europe, as well as from Africa, Asia and the USA. We would therefore maintain that TONO promotes equal opportunity in keeping with the purpose of the Act.

Oslo, 19 March 2015

			
Bendik Hofseth Chair of the Board of Directors	Bjørn Bolstad Skjelbred Deputy Chair	Åse Hedstrøm	Bjørn Eidsvåg
			
Philip Kruse	Rita Engedalen	Stine Lieng	Ine Kristine Hoem
			
Ingrid Kindem	Torunn Elstein Employee Director	Håvard Offer-Ohlson Employee Director	Cato B. Strøm Chief Executive Officer

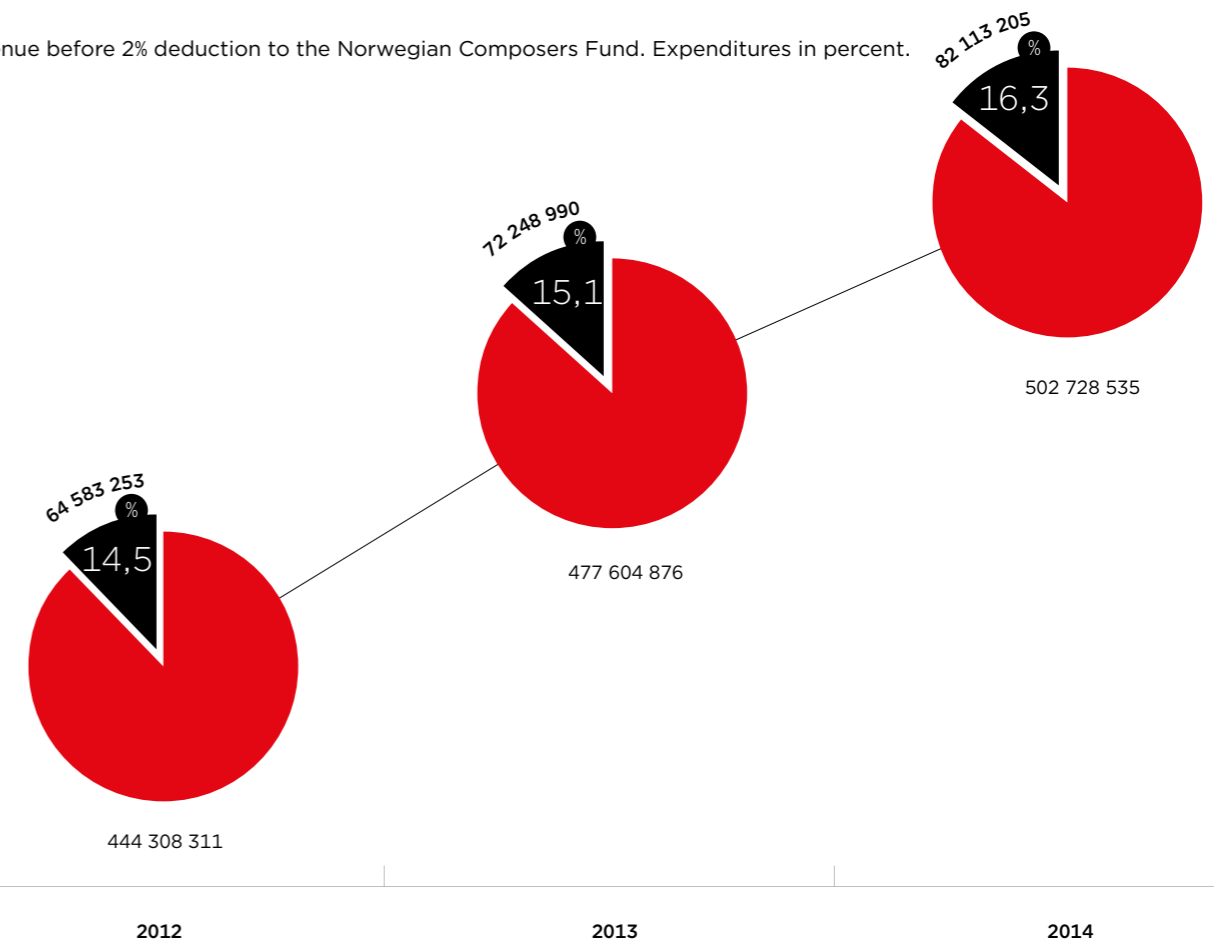
OVERVIEW OF TONOS INCOME // 2014

TONO can report record high revenues in 2014, with a year-on-year growth of 5.26 percent to NOK 493 721 664. Distribution less costs increased by 3.73 percent, while costs were equivalent to 16.33 percent of the funds for distribution.



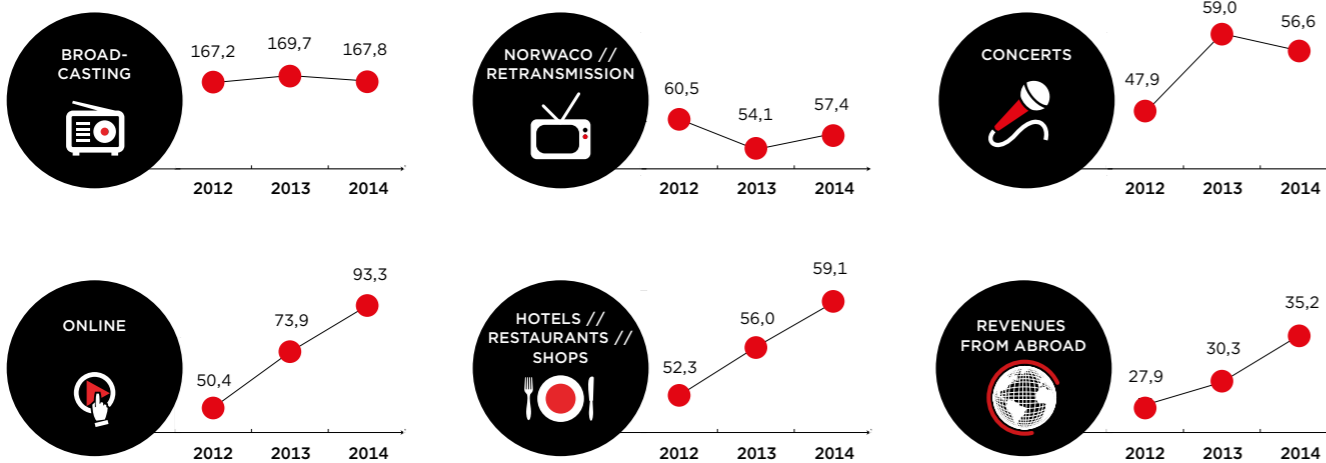
TREND IN REVENUES AND EXPENDITURES // 2012-2014

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



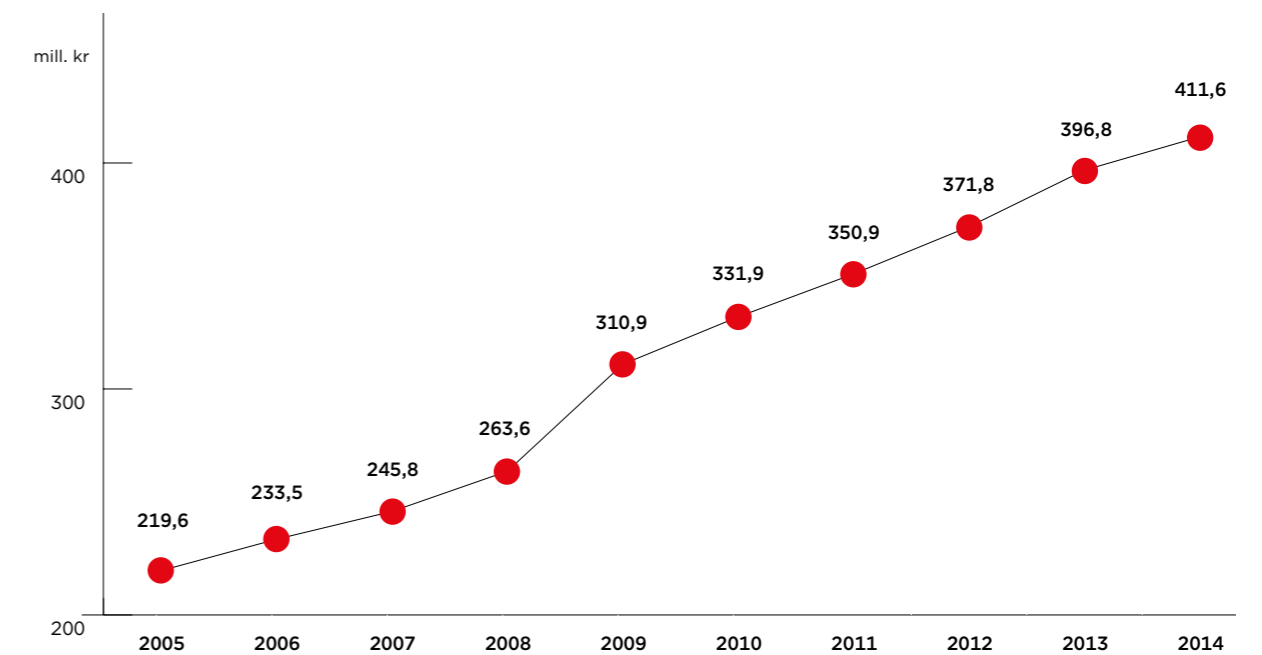
DEVELOPMENT, SOURCES OF INCOME

Numbers in mill NOK



DISTRIBUTION // 2005-2014

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

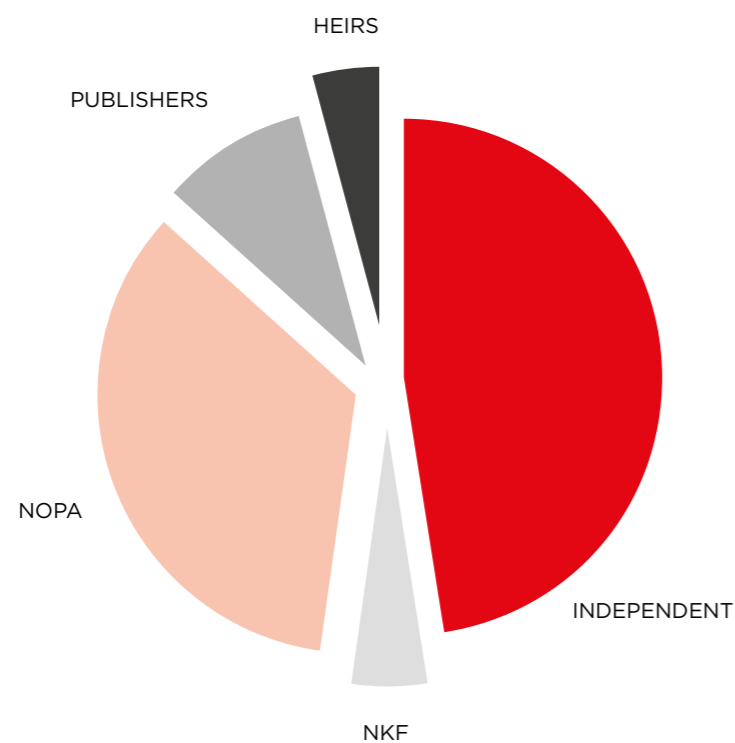
The information below shows how TONOs remunerations were distributed among various groups in 2014.

According to the Cooperatives Act terminology, those who have an administration contract with TONO, and in addition has earnings that qualify to vote at the general assembly, are referred to as "full members". Those with administration contract, but not earnings which qualify to vote at the general assembly, are referred to as "rights holders". "Organised" are those rights holders associated with group associations NOPA, Norwegian Society of Composers and Musikkforleggerne (music publishers).

DISTRIBUTION, FULL MEMBERS AND RIGHTS HOLDERS	Amount	Average amount
Full members	Kr 86 089 193	kr 63 022
Rights holders	Kr 44 514 037	kr 3 041
Totalt	Kr 130 603 231	

DISTRIBUTION BY MEMBER CATEGORY	Amount	Average amount
Independent	Kr 61 254 696	Kr 4 501
NKF	Kr 6 080 347	Kr 34 159
NOPA	Kr 44 673 708	Kr 47 024
Publishers	Kr 12 264 921	Kr 67 390
Heirs	Kr 5 609 666	Kr 5277
Total	Kr 130 603 231	

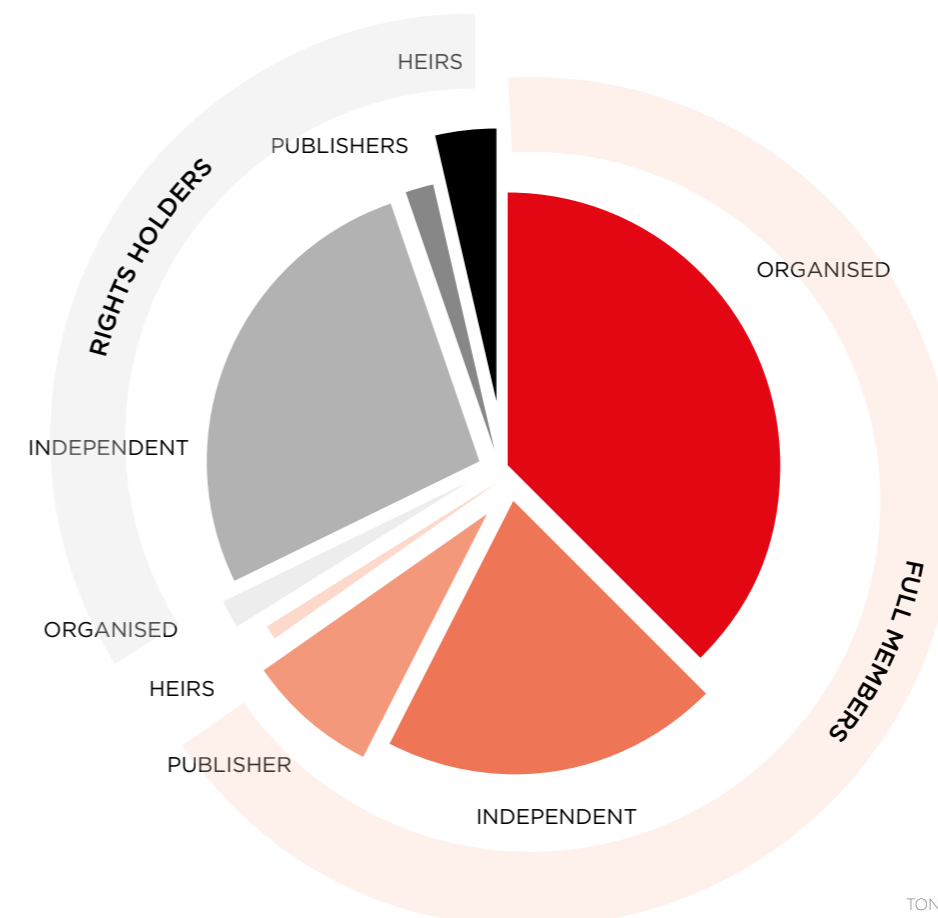
DISTRIBUTION BY MEMBER CATEGORY



DISTRIBUTION, RIGHTS HOLDERS, ORGANISED AND INDEPENDENT	Amount	Average amount
Rights holders	Kr 2 476 067	Kr 6 039
Independent	Kr 35 197 024	Kr 2 704
Ordinary members, publishers	Kr 2 251 928	Kr 13 566
Heirs	Kr 4 589 018	Kr 4404
Total	Kr 44 514 037	

DISTRIBUTION, FULL MEMBERS, ORGANISED AND INDEPENDENT	Amount	Average amount
Organised unit holders	Kr 48 997 880	Kr 66 303
Independent unit holders	Kr 26 057 671	Kr 44 166
Full members, publishers	Kr 10 012 993	Kr 625 812
Heirs unit holders	Kr 1 020 648	Kr 48 602
Total	Kr 86 089 193	

DISTRIBUTION, ORDINARY MEMBERS, ORGANISED AND INDEPENDENT



DISTRIBUTION TO AND FROM ABROAD

At the end of 2014, TONO had 64 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 societies 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 155 174 387 in 2014. The comparable figure for 2013 was 167 321 491. In 2012, the amount was NOK 161 392 978.

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. This does not include figures from online activities, since they are billed through NCB/NMP in Copenhagen on behalf of TONO.

COMPANY/COUNTRY	Distributed 2014	Distributed 2013	Distributed 2012
AKM, Austria	495 296	483 043	1 015 420
APRA, Australia	1 741 916	1 887 337	1 888 016
ASCAP, USA	16 630 740	18 286 238	17 881 649
BMI, USA	13 911 591	14 520 766	15 450 885
BUMA, The Netherlands	518 945	681 133	765 708
GEMA, Germany	3 209 495	3 770 741	3 880 151
JASRAC, Japan	78 818	243 912	157 236
KODA, Denmark	5 491 132	6 172 273	6 007 564
OSA, Czech Republic	80 130	178 284	122 017
PRS, England	47 540 277	49 878 569	39 513 478
SABAM, Belgium	332 968	390 711	363 211
SACEM, France	5 961 684	6 414 895	6 184 279
SGAE, Spain	401 627	460 560	544 877
SIAE, Italy	649 379	805 758	822 900
SOCAN, Canada	2 119 863	1 968 036	2 627 442
STEF, Iceland	135 857	127 563	142 004
STIM, Sweden	52 486 884	57 045 931	59 751 110
SUISA, Switzerland	372 741	459 147	465 197
TEOSTO, Finland	837 681	863 561	898 570
ZAIKS, Poland	212 434	346 972	286 353
Other	1 964 929	2 336 061	2 624 911
TOTAL	155 174 387	167 321 491	161 392 978

● Distribution to Norway
kr 35 221 806

● International distribution
kr 155 174 387

DISTRIBUTION FROM ABROAD

Altogether, revenues of NOK 35 221 806 were recognised from foreign sister companies as payment for the use of TONO's repertoire in other countries in 2014. The comparable figure for 2013 was NOK 30 271 014. Part of the explanation for the relatively formidable increase is the weak Norwegian NOK exchange rate in the latter part of 2014. 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 2014	Received 2013	Received 2012
AKM, Austria	434 687	498 497	913 523
APRA, Australia	577 435	391 063	178 845
ASCAP, USA	1 085 267	575 887	764 883
BUMA, The Netherlands	1 252 684	1 124 568	1 929 867
GEMA, Germany	5 083 059	3 677 958	3 659 683
JASRAC, Japan	792 712	897 106	1 155 216
KODA, Denmark	9 003 398	7 134 138	6 773 888
PRS, England	3 077 087	1 635 062	2 859 291
SABAM, Belgium	291 831	559 141	123 838
SACEM, France	1 756 186	1 387 773	1 219 439
STIM, Sweden	5 849 730	6 455 359	4 513 445
SUISA, Switzerland	920 337	724 168	715 156
TEOSTO, Finland	1 912 197	1 601 179	1 404 698
BMI, USA	237 912	197 574	170 202
Other	2 947 284	3 411 541	1 592 961
TOTAL	35 221 806	30 271 014	27 974 935

Want to know
more about TONO?

Contact +47 22 05 72 00,
tono@tono.no or **tono.no**

 facebook.com/tononorge

 twitter.com/_tono_

 instagram.com/tono_norge

TONO