

**SoundCloud Limited**

**Directors' report and consolidated  
financial statements**

**Registered number 06343600**

**For the year ended 31 December 2016**

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## **Company information**

<b>Directors</b>	Alexander Ljung Fred Wilson Christophe Ferdinand Maire (resigned on 15 August 2017)
<b>Secretary</b>	Eriska Secretaries Limited
<b>Company number</b>	06343600
<b>Registered office</b>	c/o JAG Shaw Baker Berners House 47-48 Berners Street London W1T 3NF
<b>Statutory auditor</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Banker</b>	Deutsche Bank CIB GTB Ost Unter den Linden 13-15 10117 Berlin Germany

## **Strategic report**

### **About SoundCloud**

SoundCloud is the world's leading open audio platform, enabling anyone to easily upload and share their music, podcasts, and other audio content with a global audience. Through our unique creator-driven system, along with signed license deals with music rights holders, SoundCloud has amassed a catalogue of over 175 million on-demand tracks, making it the largest, most diverse audio service in the world.

SoundCloud reaches a large, engaged and primarily mobile-first audience. According to AppAnnie, in the United Kingdom, SoundCloud is currently a top 3 mobile music application in the iOS App Store, and a top 50 mobile application overall. In the core U.S. market, SoundCloud is a top 3 mobile music application and top 25 overall.

### **Business review**

SoundCloud has developed a business model to receive revenue from audio uploaders/rights holders (creators) as well as content consumers (listeners) that use the SoundCloud platform. Today, we generate sales through three revenue streams: i) creator subscriptions (SoundCloud Pro and Pro Unlimited), ii) listener subscriptions (SoundCloud Go and Go+) and iii) advertising seen and heard by non-paying listeners.

Our objective is to continue to expand the size and value of SoundCloud's business while continuing to develop our highly differentiated, two-sided technology platform. Since our last report, we have made significant progress toward these objectives.

In 2016, SoundCloud's base of paid creator subscribers, content catalogue, listener subscribers and advertising revenue all grew substantially. We expanded our monetisation offerings with the launch of our first listener subscription service SoundCloud Go+, and extended our advertising business to markets outside of the United States. These were followed by the launch of SoundCloud Go, our mid-priced listener subscription offering in 2017.

The Company's performance also improved significantly in 2016. Total revenue across all streams rose to €50.3 million in 2016, increasing by 89% compared to €26.6 million in 2015. This was driven by continued growth in our creator subscription offerings, our new listener subscription offering, and the international expansion of our advertising business, with the latter two contributing to the revenue development in particular. In 2017, we saw continued growth across all three revenue lines.

To achieve 2016's growth trajectory, SoundCloud continued to invest in content, technology, headcount and marketing. As a result, the operating loss for the year increased from €48.6 million (without non-cash share based payments of €6.5 million: €42.1 million) for the year ended 31 December 2015, to an operating loss of €70.5 million (without non-cash share based payments of €22.1 million, of which €15.9 million are one-time: €48.4 million) for the year ended 31 December 2016. Cash used in operating activities during the year increased from €39.2m in 2015 to €58.1m in 2016.

More recently, SoundCloud undertook a series of steps to rationalise its operating expenses and strengthen its balance sheet. In July 2017, the Company reduced its headcount by 40%. In August 2017, SoundCloud obtained \$170 million investment led by The Raine Group and Temasek plus participation from existing investors including Union Square Ventures, Doughty Hanson and Atlantic Technology. Along with the financing, SoundCloud brought in a new executive management team led by Kerry Trainor (CEO) and Michael Weissman (COO), both of whom have strong consumer internet backgrounds.

With the aforementioned \$170 million financing, plus a focused strategic operating plan, SoundCloud is now positioned for capital efficient growth.

## **Strategic report (continued)**

### **Key performance indicators**

The Group uses a number of financial measures to monitor progress against strategies and corporate objectives. These are summarised below:

	2016	2015 (restated) (note 1)
	€000	€000
Revenue	50,295	26,622
Operating loss	(70,512)	(48,639)
Cash flow from operations	(58,082)	(39,211)

### **Market risks and uncertainties**

#### *Competition*

The audio streaming market for listeners is contested by well-capitalized companies such as Google, Spotify, Apple and Amazon as well as new, more focused players. SoundCloud does not expect the listener market to be a winner takes all opportunity. In addition, SoundCloud's core product offering is providing upload tools for audio creators, where the Company has a clear leadership position to offset the intensely competitive general streaming market.

#### *Employees*

There may be a risk to SoundCloud in attracting and retaining talent. As of 31 December 2016, the Group employed 334 people across its Berlin, London, San Francisco and New York offices. A majority of these employees have technical backgrounds and are highly-qualified individuals who want to work in a challenging environment.

#### *Copyright & Policy Risk*

SoundCloud is committed to developing and maintaining tools, technologies and processes designed to protect against the use of our platform for the distribution of unauthorised or unlawful material. There are statutory provisions in European law, the federal law of the United States and elsewhere that operate to limit (but do not generally exclude) the liability of online service providers for hosting unauthorized or unlawful material, provided certain requirements are met. Despite the existence of these statutory provisions in some territories, the law relating to the liability of online service providers is largely unsettled, and in any event the position varies from territory to territory according to local law.

### **Financial risk management**

SoundCloud Limited ("the Company") and its subsidiaries (together "the Group") have established a risk and financial management framework to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risks at the business level.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge that obligation. Group policies are aimed at minimising such losses and require that the deferred terms are only granted to customers who demonstrate an appropriate payment history. Details of the Group's debtors are shown in note 12 to the financial statements.

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group aims to mitigate liquidity risk by managing cash generation and cash expenditure by its operations and long term funding. The Group manages its cash requirements by reviewing obligations to ensure sufficient funding capacity is in place to meet the obligations as they fall due. In August 2017 SoundCloud obtained \$170 million in financing which allows the Group to meet its obligations.

*SoundCloud Limited*  
*Consolidated financial statement*  
*For the year ended 31 December 2016*

**Strategic report** *(continued)*

On behalf of the board

Alexander Ljung  
*Director*



c/o JAG Shaw Baker  
Berners House 47-48 Berners Street  
London  
W1T 3NF

Date: 4 APRIL 2017

## **Directors' report**

The Directors present their Report and the audited Financial Statements of the Group and Company for the year ended 31 December 2016.

### **Directors of the company**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Alexander Ljung  
Fred Wilson  
Christophe Ferdinand Maire (until 15 August 2017)

### **Principal activities**

The Company's principal business is that of a holding company to its subsidiary undertakings which are engaged in the provision of an online platform enabling its users to easily upload and share their music, podcasts, and other audio content with a global audience. The company operates from Germany and has subsidiaries in the United States and Bulgaria which provide sales and technical support. There has not been any significant change in this activity during the year.

### **Event since the balance sheet date**

In March 2017, SoundCloud obtained a loan which was deployed to repay the loan obtained in 2015 (note 14). In August 2017, SoundCloud obtained a significant equity investment led by The Raine Group, a global merchant bank, and Temasek, a Singapore-headquartered investment company. Existing investors including Union Square Ventures, Doughty Hanson and Atlantic Technology also participated. The loan obtained in March 2017 has been repaid in the context of the aforementioned transaction.

### **Research and development**

Research and development is concentrated on the development of the platform.

### **Future developments**

The directors aim to maintain the management policies which have resulted in the Group's substantial growth in recent years. They consider that the next year will show a further significant growth in revenues from continuing operations.

### **Donations**

Political and charitable donations did not exceed €0 in the year (2015: €0).

### **Financial risk management**

The management of financial risks is disclosed in the strategic report.

## **Directors' report (continued)**

### **Employees**

As in prior years, UK based employees have played an important role in SoundCloud Limited's daily business. In addition to engaging actively in building and running our platform, staff in the UK have benefited from a number of policies aimed at proactively involving them.

Relevant information has been made available to them regularly through means of the internal communication channels available to staff globally. Specifically, this included our intranet, virtual/electronic participation in bi-weekly All Hands meetings, hosted in Berlin or New York, and regular business related meetings, calls and video conferences with the UK team.

To ensure relevant employees have been consulted sufficiently to take into account their view and interests, regular meetings with executives and business leaders have been conducted. Travel occurred frequently, providing substantial face-to-face interaction, both in the UK as well as in other offices.

As members of staff, the UK based employees have participated in our share based compensation arrangements on the same terms as members of staff located in other countries. Sufficient information regarding financial and economic factors was made available to them via our intranet, recurring All Hands meetings, inclusive communications via dedicated company updates by means of email, as well as through regular and detailed meetings with UK based staff, both individually, but also in larger groups.

### **Disabled employees**

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

### **Auditors**

In February 2017 Ernst & Young resigned as auditors of the Group. PricewaterhouseCoopers LLP were subsequently duly appointed as auditors.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **Going Concern**

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to liquidity and cash flow risk are described in the Strategic Report.

During 2017, the Group has successfully raised \$170 million funding that allows it to continue building its business. As part of their going concern assessment, the Directors have reviewed trading and cash flow forecasts which take into consideration the uncertainties in the current operating environment. The assumptions made reflect the updated strategic focus of the Group, driven by the positive trends in non-financial KPIs. Growth in subscriptions in both the creator and the consumers business lines is complemented with additional monetizeable inventory coming on stream

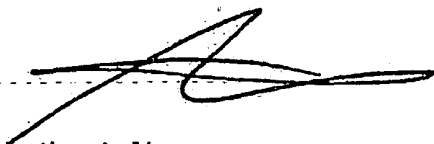


**Directors' report** (continued)

for the advertising business. Latest terms and conditions agreed with the key partners in the music industry have been assumed, as well as an updated headcount forecast, reflecting organisational changes underpinning the planned development. Together, this lays the grounds for further monetisation of SoundCloud's platform in the near term future.

In determining the appropriate basis of preparation of the Annual Report, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue as a going concern.

On behalf of the board



**Alexander Ljung**  
*Director*

*c/o JAG Shaw Baker*  
Berners House 47-48 Berners Street  
London  
W1T 3NF

Date: 4 April 2017

## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditors' report to the members of SoundCloud Limited**

### **Report on the financial statements**

- **Our opinion**

In our opinion, SoundCloud Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

- **What we have audited**

The financial statements, included within the Directors' report and consolidated financial statements (the "Annual Report"), comprise:

- the Consolidated and Company balance sheets as at 31 December 2016;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Group and Company Statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

### **Other matters on which we are required to report by exception**

- **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

## **Independent auditors' report to the members of SoundCloud Limited (continued)**

- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

- **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Responsibilities for the financial statements and the audit**

- **Our responsibilities and those of the directors**

As explained more fully in the Statement of the directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

- **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Brian Henderson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

**SAPML** 2018

**Consolidated statement of comprehensive income**  
for the year ended 31 December 2016

	<i>Note</i>	<b>2016</b>	2015 (restated) (note 1)
		€000	€000
<b>Revenue</b>	2	50,295	26,622
<b>Cost of sales</b>		(36,127)	(15,312)
		<u>14,168</u>	<u>11,310</u>
<b>Gross profit</b>			
<b>Administrative expenses</b>		(84,680)	(59,949)
		<u>(70,512)</u>	<u>(48,639)</u>
<b>Operating loss</b>	3		
Interest receivable and similar income		53	-
Interest payable and similar expenses	7	(3,599)	(1,521)
		<u>(74,058)</u>	<u>(50,160)</u>
<b>Loss before taxation</b>			
<b>Tax on loss</b>	8	(417)	(1,056)
		<u>(74,475)</u>	<u>(51,216)</u>
<b>Loss for the financial year</b>			

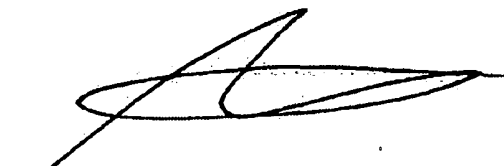
All results are in respect of continuing operations.

**SoundCloud Limited**  
Consolidated financial statement  
For the year ended 31 December 2016

**Consolidated balance sheet**  
**at 31 December 2016**

	Note	2016		2015 (restated) (note 1)	
		€000	€000	€000	€000
<b>Fixed assets</b>					
Intangible assets	9		322		198
Tangible assets	10		4,672		6,230
			4,994		6,428
<b>Current assets</b>					
Debtors	12	38,114		13,545	
Cash at bank and in hand		23,368		12,387	
		61,482		25,932	
<b>Creditors: amounts falling due within one year</b>	13	(40,302)		(27,844)	
<b>Net current liabilities</b>			(21,180)		(1,912)
<b>Total assets less current liabilities</b>			26,174		4,516
<b>Creditors: amounts falling due after more than one year</b>	14		(33,297)		(41,443)
<b>Net liabilities</b>			(7,083)		(36,927)
<b>Capital and reserves</b>					
Called up share capital	15		47		36
Share premium account	16		188,581		82,348
Share based payment reserve	16		19,844		13,689
Profit and loss account	16		(207,475)		(133,000)
<b>Total equity</b>			(7,083)		(36,927)

The financial statements on pages 11 to 31 were approved by the board of directors on March 29, 2018 and were signed on their behalf by:


  
**Alexander Ljung**  
Director

**SoundCloud Limited**  
*Consolidated financial statement*  
*For the year ended 31 December 2016*

**Company balance sheet**  
*at 31 December 2016*

	Note	2016		2015 (restated) (note 1)	
		€000	€000	€000	€000
<b>Fixed assets</b>					
Intangible assets	9		322		198
Tangible assets	10		4,257		5,920
Investments	11		4,114		2,732
			<u>8,693</u>		<u>8,850</u>
<b>Current assets</b>					
Debtors	12	41,096		24,919	
Cash at bank and in hand		<u>21,666</u>		<u>11,635</u>	
		<u>62,762</u>		<u>36,554</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(41,707)</u>		<u>(38,939)</u>	
<b>Net current assets / (liabilities)</b>			<u>21,055</u>		<u>(2,385)</u>
<b>Total assets less current liabilities</b>			<u>29,748</u>		<u>6,465</u>
<b>Creditors: amounts falling due after more than one year</b>	14		<u>(33,257)</u>		<u>(41,443)</u>
<b>Net liabilities</b>			<u>(3,509)</u>		<u>(34,978)</u>
<b>Capital and reserves</b>					
Called up share capital	15		47		36
Share premium account	16		180,501		82,348
Share based payment reserve	16		19,844		13,689
Profit and loss account	16		<u>(203,901)</u>		<u>(131,051)</u>
<b>Total equity</b>			<u>(3,509)</u>		<u>(34,978)</u>

The financial statements on pages 11 to 31 were approved by the board of directors on March 29, 2018 and were signed on their behalf by:



Alexander Ljung  
 Director

Company number: 06343600

**Statements of changes in equity**  
*for the year ended 31 December 2016*

Group	Called up share capital (restated) (note 1)	Share premium account (restated) (note 1)	Share-based payment reserve	Foreign exchange reserve	Profit and loss account	Total equity
	€000	€000	€000	€000	€000	€000
At 1 January 2015	34	82,049	7,138	-	(81,784)	7,437
Loss for the financial year	-	-	-	-	(51,216)	(51,216)
Share based payment expense	-	-	6,551	-	-	6,551
New shares issued	2	299	-	-	-	301
At 31 December 2015	36	82,348	13,689	-	(133,000)	(36,927)
Loss for the financial year	-	-	-	-	(74,475)	(74,475)
Share based payment expense	-	-	6,155	-	-	6,155
New shares issued	11	98,153	-	-	-	98,164
At 31 December 2016	47	180,501	19,844	-	(207,475)	7,083

Company	Called up share capital (restated) (note 1)	Share premium account (restated) (note 1)	Share-based payment reserve	Foreign exchange reserve	Profit and loss account	Total equity
	€000	€000	€000	€000	€000	€000
At 1 January 2015	34	82,049	7,138	-	(81,037)	8,184
Loss for the financial year	-	-	-	-	(50,014)	(50,014)
Share based payment expense	-	-	6,551	-	-	6,551
New shares issued	2	299	-	-	-	301
At 31 December 2015	36	82,348	13,689	-	(131,051)	(34,978)
Loss for the financial year	-	-	-	-	(72,850)	(72,850)
Share based payment expense	-	-	6,155	-	-	6,155
New shares issued	11	98,153	-	-	-	98,164
At 31 December 2016	47	180,501	19,844	-	(203,901)	(3,509)



**Consolidated statement of cash flows**  
**for the year ended 31 December 2016**

	<i>Note</i>	<b>2016</b>	<b>2015</b> (restated) (note 1)
		<b>€000</b>	<b>€000</b>
<b>Net cash from operating activities</b>	<b>20.</b>	<b>(57,665)</b>	<b>(38,155)</b>
Taxation paid		(417)	(1,056)
<b>Net cash used in operating activities</b>		<b>(58,082)</b>	<b>(39,211)</b>
Purchase of intangible assets		(177)	(177)
Purchase of tangible assets		(1,533)	(2,682)
Interest received		53	-
<b>Net cash used in investing activities</b>		<b>(1,657)</b>	<b>(2,859)</b>
Issue of share capital		82,217	301
Receipts from loans		1,024	41,443
Repayment of loans		(9,209)	-
Interest paid		(3,599)	(1,521)
<b>Net cash generated in financing activities</b>		<b>70,433</b>	<b>40,223</b>
<b>Net increase in cash and cash equivalents</b>		<b>10,694</b>	<b>(1,847)</b>
Cash and cash equivalents at the beginning of the year		12,387	14,234
Translation differences		287	-
<b>Cash and cash equivalents at the end of the year</b>		<b>23,368</b>	<b>12,387</b>
<b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand		23,368	12,387
<b>Cash and cash equivalents</b>		<b>23,368</b>	<b>12,387</b>

## **Notes**

*(forming part of the financial statements)*

### **Accounting policies**

#### **General information**

SoundCloud Limited ("the Company") and its subsidiaries (together "the Group") operate an open audio platform, enabling anyone to easily upload and share their music, podcasts, and other audio content with a global audience.

SoundCloud Limited is a limited liability company incorporated in England. The Registered Office is at c/o JAG Shaw Baker, Berners House, 47-48 Berners Street, London W1T 3NF.

#### **Statement of compliance**

The Group and individual financial statements of SoundCloud Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

#### **Basis of preparation**

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements of SoundCloud Limited were authorised for issue by the Board of Directors. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in Euro which is the functional currency of the Group and rounded to the nearest €'000.

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies.

#### **Restatements**

Prior year called up share capital and share premium have been restated to correct a classification and administrative error of €9k.

A balance of €813k in relation to a payment service provider has been reclassified in 2015 from cash to other debtors. The balance has been reclassified because it did not meet the definition of cash and cash equivalents. The amount of the correction as at 1 January 2015 was €532k. This reclassification has impacted the prior year Consolidated and Company balance sheets in addition to the Consolidated statement of cash flows and Notes.

In the prior year financial statements, certain expenses and royalties payable to music industry stakeholders and owners of relevant content were netted off revenue and SoundCloud was deemed to be operating as an agent. Following a detailed review of the contractual arrangements and the relevant risks and rewards, SoundCloud acts as a principal in these transactions and accordingly prior year revenues have been restated on a gross basis to reflect this. The amount of this prior period error was €4,591k which has been reclassified from Revenue to Cost of Sales. There is no overall impact to gross profit.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2016.

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for SoundCloud Limited as permitted by section 408 of the Companies Act 2006.

## **Notes** *(continued)*

### **1**      **Accounting policies** *(continued)*

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

#### ***Going concern***

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to liquidity and cash flow risk are described in the Strategic Report.

During 2017, the Group has successfully raised \$170 million funding that allows it to continue building its business. As part of their going concern assessment, the Directors have reviewed trading and cash flow forecasts which take into consideration the uncertainties in the current operating environment. The assumptions made reflect the updated strategic focus of the Group, driven by the positive trends in non-financial KPIs. Growth in subscriptions in both the creator and the consumers business lines is complemented with additional monetizeable inventory coming on stream for the advertising business. Latest terms and conditions agreed with the key partners in the music industry have been assumed, as well as an updated headcount forecast, reflecting organisational changes underpinning the planned development. Together, this lays the grounds for further monetisation of SoundCloud's platform in the near term future.

In determining the appropriate basis of preparation of the Annual Report, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue as a going concern.

#### ***Tangible assets***

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Computer and office equipment	over 3 to 5 years
-------------------------------	-------------------

#### ***Intangible assets***

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on acquisition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives of 5 years. The carrying value of intangible assets is reviewed at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### ***Revenue recognition***

SoundCloud Limited operates two lines of business: First, the creator business which allows creators to share content through the internet, enabled via a suite of products and services. Second, the consumer-facing business which provides listeners with access to a substantial, and in many cases unique, catalogue of content which can be consumed via the web or on mobile devices. Therefore, all revenue represents income receivable for subscription

## **Notes (continued)**

### **1 Accounting policies (continued)**

services provided and revenue received through promotion and advertising in the period, exclusive of Value Added Tax and trade discounts.

Subscriptions are sold directly to our customers and through the means of relevant online stores. The resulting subscription revenue is recognised evenly over the subscription period and where a subscription covers more than one financial period, an element of revenue arising from that subscription is deferred into subsequent periods.

Advertising revenue is generated through various advertising formats being delivered on the platform. Direct sales efforts are deployed through an in-house sales team, supplemented by indirect sales channels in certain countries. The resulting revenue is recognised when the following conditions have been met:

- The amount of revenue can be measured reliably
- It is probable that future economic benefits associated with the transaction will flow to the Group
- The stage completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

#### ***Research and development***

Research and development expenditure is written off as incurred.

#### ***Provisions for liabilities***

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### ***Deferred tax***

Deferred tax assets and liabilities have arisen from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Full provision is made for all liabilities, and provision is made for assets to the extent that they are considered more likely than not to be recoverable in the foreseeable future. Provision is made using tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based upon rates enacted at the balance sheet date.

#### ***Debtors***

Debtors are shown after providing for any amounts which in the opinion of the directors may not be collected in full. The Group also has certain arrangements whereby costs are paid in advance or are subject to minimum guaranteed amounts. The amounts paid in advance are reviewed for impairment when the actual costs incurred during a contractual year are lower than the advance payment made or the minimum guaranteed amounts.

#### ***Investments***

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less any impairment losses.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **Foreign currencies**

##### **Company**

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

##### **Group**

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The assets and liabilities of overseas subsidiary undertakings are translated into the presentational currency at the rate of exchange ruling at the balance sheet date. Profit and loss accounts of such undertakings are consolidated at the exchange rate of the day. Gains and losses arising on these translations are taken to the profit and loss account.

#### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### **Financial liabilities**

Basic financial liabilities, including trade and other payables, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

#### **Leases**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### **Post-retirement benefits**

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

#### **Share based payments**

The share option program for employees allows employees to acquire shares of the Company. The grant date fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options

## **Notes (continued)**

### **1 Accounting policies (continued)**

granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value expensed in the profit and loss account.

For warrants to non-employees for good or services received, the grant date fair value is recognised as expenses over the period the other party become unconditionally entitled to the awards. The fair value is measured based on the value of goods or services received or if this is not possible based on the fair value of the equity instrument.

#### ***Critical accounting judgements and estimation uncertainty***

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### ***Share based payments***

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions) and non vesting conditions. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non vesting condition, which are treated as vesting irrespective of whether or not the market or non vesting condition is satisfied, provided that all other performance conditions are satisfied.

## Notes (continued)

### 2 Revenue

Revenue represents the amounts derived from the provision of services which fall within the company's ordinary activities, stated net of value added tax. The Group operates two lines of business: First, our creator business allows creators to share content through the internet, enabled via a suite of products and services generating subscription revenues for SoundCloud Limited. Second, our consumer-facing business provides listeners with access to a substantial, and in many cases unique, catalogue of content which can be consumed via the web or on mobile devices.

Analysis of revenue by category and region:

	Subscription	Advertising	2016 Total	Subscription (restated) (note 1)	Advertising (restated) (note 1)	2015 Total (restated) (note 1)
	€000	€000	€000	€000	€000	€000
USA	23,968	10,897	34,865	9,016	7,558	16,574
Europe & Other	14,472	958	15,430	10,048	-	10,048
	<u>38,440</u>	<u>11,855</u>	<u>50,295</u>	<u>19,064</u>	<u>7,558</u>	<u>26,622</u>

### 3 Group Operating loss

	2016 €000	2015 €000
<i>This is stated after charging:</i>		
Depreciation of owned assets (see note 10)	3,091	3,056
Amortisation of IT software (see note 9)	53	16
Foreign exchange losses	3,229	370
Auditors' remuneration (see note 4)	60	28
Operating lease rentals – land and buildings	3,547	2,249
Share based payments for warrants	901	1,302
Valuation of shares issued at par value	<u>15,948</u>	<u>-</u>

The expenses from the share based payments for warrants amounting to €901,000 reflect the expenses required to be allocated under FRS 102 over the vesting period of three years for warrants granted to a third party to acquire 63,789 A Ordinary Shares. This expense is a non-cash transaction.

The expenses from the valuation of shares issued at par value amounting to €15,948,000 result from the required application of FRS 102 and represent the difference between the par value of the A Ordinary shares (0.01 €) and the fair value. In 2016 355,351 shares were granted to third parties. This is a one-time expense and a non-cash transaction.

**Notes (continued)**

**4 Auditors' remuneration**

	2016 €000	2015 €000
<i>The remuneration of the auditors or its associates is further analysed as follows:</i>		
Audit of the financial statements	60	28
Taxation services	-	-
Other non-audit services	-	-
	<u>60</u>	<u>28</u>

**5 Remuneration of directors**

	2016 €000	2015 €000
Directors' emoluments	231	267
	<u>231</u>	<u>267</u>

No directors accrued any benefits under the defined contributions scheme.

**6 Staff costs**

	<b>Group</b>		<b>Company</b>	
	2016 €000	2015 €000	2016 €000	2015 €000
<i>Staff Costs</i>				
Wages and salaries	29,233	26,765	17,904	17,164
Share based payments (see note 19)	5,254	5,249	3,870	4,340
Social security costs	3,863	3,485	2,383	2,304
Other pension costs	203	103	171	27
	<u>38,553</u>	<u>35,602</u>	<u>24,328</u>	<u>23,835</u>

The average monthly number of employees (including directors) during the year was made up as follows:

	<b>Group</b>		<b>Company</b>	
<i>Number of employees</i>	2016	2015	2016	2015
Product, Engineering & Design	145	159	128	146
Operations	85	91	66	62
Sales & Marketing	67	45	18	11
	<u>296</u>	<u>295</u>	<u>212</u>	<u>219</u>



**Notes (continued)**

**7 Interest payable and similar expenses**

	2016 €000	2015 €000
Interest payable on borrowings	3,599	1,521

**8 Tax on loss**

*Analysis of charge in period*

	2016 €000	2015 €000
<i>Corporation tax - overseas</i>		
Current tax	244	829
Adjustment in respect of prior years	173	227
Tax on loss on ordinary activities	417	1,056

*Factors affecting the tax charge for the current period*

The tax charge for the year is higher (2015: higher) than the standard rate of corporation tax in Germany of 30.18% (2015: 30.18%). The differences are explained below.

	2016 €000	2015 €000
<i>Current tax reconciliation</i>		
Loss before taxation	74,058	50,160
Current tax at 30.18% (2015: 30.18%)	(22,351)	(15,138)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	7,973	1,483
Tax losses carried forward	14,582	14,457
Adjustment in respect of prior years	173	227
Effect of different tax rates	30	27
Other effects	10	-
Total tax charge	417	1,056

The Group is taxable in Germany, UK, USA and Bulgaria. As the Group is loss-making, it is unlikely to be tax-paying in the near future. Due to transfer pricing rules, tax may be payable in the US, Bulgaria and Australia.

Due to the uncertainty of recoverability, deferred taxation has not been provided in respect of tax losses carried forward of approximately €171 million (2015: €119 million).

**Notes (continued)**

**9 Intangible**

**Group**

	<b>Assets under Construction €000</b>	<b>IT software €000</b>	<b>Total €000</b>
<i>Cost</i>			
At 1 January 2016	179	41	220
Transfer	(147)	147	-
Additions	-	177	177
	<hr/>	<hr/>	<hr/>
At 31 December 2016	32	365	397
<i>Accumulated amortisation</i>			
At 1 January 2016	-	22	22
Charge for the year	-	53	53
	<hr/>	<hr/>	<hr/>
At 31 December 2016	-	75	-75
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2016	32	290	322
	<hr/>	<hr/>	<hr/>
At 31 December 2015	179	19	198
	<hr/>	<hr/>	<hr/>

**Company**

	<b>Assets under Construction €000</b>	<b>IT software €000</b>	<b>Total €000</b>
<i>Cost</i>			
At 1 January 2016	179	41	220
Transfer	(147)	147	-
Additions	-	177	177
	<hr/>	<hr/>	<hr/>
At 31 December 2016	32	365	397
<i>Accumulated amortisation</i>			
At 1 January 2016	-	22	22
Charge for the year	-	53	53
	<hr/>	<hr/>	<hr/>
At 31 December 2016	-	75	75
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2016	32	290	322
	<hr/>	<hr/>	<hr/>
At 31 December 2015	179	19	198
	<hr/>	<hr/>	<hr/>

**Notes (continued)**

**10 Tangible**

**Group**

	<b>Computer and office equipment €000</b>	<b>Total €000</b>
<i>Cost</i>		
At 1 January 2016	12,505	12,505
Additions	1,533	1,533
	<hr/>	<hr/>
At 31 December 2016	14,038	14,038
	<hr/>	<hr/>
<i>Accumulated depreciation</i>		
At 1 January 2016	6,275	6,275
Charge for the year	3,091	3,091
	<hr/>	<hr/>
At 31 December 2016	9,366	9,366
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 December 2016	4,672	4,672
	<hr/>	<hr/>
At 31 December 2015	6,230	6,230
	<hr/>	<hr/>

**Company**

	<b>Computer and office equipment €000</b>	<b>Total €000</b>
<i>Cost</i>		
At 1 January 2016	11,958	11,958
Additions	1,220	1,220
	<hr/>	<hr/>
At 31 December 2016	13,178	13,178
	<hr/>	<hr/>
<i>Accumulated depreciation</i>		
At 1 January 2016	6,038	6,038
Charge for the year	2,883	2,883
	<hr/>	<hr/>
At 31 December 2016	8,921	8,921
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 December 2016	4,257	4,257
	<hr/>	<hr/>
At 31 December 2015	5,920	5,920
	<hr/>	<hr/>

## Notes (continued)

### 11 Investments

	Shares in group undertakings €000
<i>Cost and net book value</i>	
At 1 January 2016	4,811
Share based payment charge for employees of subsidiaries	1,383
	<hr/>
At 31 December 2016	6,194
	<hr/>
<i>Provisions</i>	
At 1 January 2016	2,080
Impairment	-
	<hr/>
At 31 December 2016	2,080
	<hr/>
<i>Net book value</i>	
31 December 2016	4,114
	<hr/>
At 31 December 2015	2,731
	<hr/>

The companies in which the company's interest at the year-end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary undertakings</i>			
SoundCloud Inc.	USA	Support services	100%
SoundCloud EOOD	Bulgaria	Support services	100%
SoundCloud Operations Inc.	USA	Support services	100%
SoundCloud Pty. Limited	Australia	Support services	100%

Investment in subsidiary company is held at cost less accumulated impairment losses. The investment valuation is dependent on the future cash flows and the directors have concluded that there is no impairment.

### 12 Debtors

	Group		Company	
	2016	2015 (restated) (note 1)	2016	2015 (restated) (note 1)
	€000	€000	€000	€000
Trade debtors	4,934	1,967	742	8
Amounts owed by group undertakings	-	-	10,750	17,301
Other debtors	33,180	11,578	29,604	7,610
	<hr/>	<hr/>	<hr/>	<hr/>
	38,114	13,545	41,096	24,919
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 13 Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	€000	€000	€000	€000
Trade creditors	5,068	3,394	4,439	3,086
Other liabilities	11,990	9,650	6,630	9,617
Accruals and deferred income	22,742	13,973	22,693	11,585
Amounts owed to group undertakings	-	-	7,440	13,824
Other taxation and social security	75	6	54	6
Taxation	427	821	451	821
	<u>40,302</u>	<u>27,844</u>	<u>41,707</u>	<u>38,939</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 14 Creditors: amounts falling due after more than one year

	Group		Company	
	2016	2015	2016	2015
	€000	€000	€000	€000
11% secured loan of US\$ 35,000,000 repayable on 1 October 2018	33,257	32,234	33,257	32,234
1% unsecured loan of US\$ 10,000,000	-	9,209	-	9,209
	<u>33,257</u>	<u>41,443</u>	<u>33,257</u>	<u>41,443</u>

The long-term loans are wholly repayable within two years.

### 15 Called up share capital

	Group and Company	
	2016	2015
	€000	(restated) (note 1) €000
<i>Allotted, called up and fully paid:</i>		
1,252,469 Ordinary shares of €0.01 each	13	12
355,351 A Ordinary shares of €0.01 each	4	1
678,333 A preferred shares of €0.01 each	7	7
818,195 B preferred shares of €0.01 each	8	8
341,846 C preferred shares of €0.01 each	3	3
42,074 C1 preferred shares of €0.01 each	-	-
474,616 D preferred shares of €0.01 each	5	5
724,459 E preferred shares of €0.01 each	7	-
	<u>47</u>	<u>36</u>

**Notes (continued)**

The ordinary shares have attached to them full voting, dividend and capital distributions rights, including on winding up. The ordinary shares do not confer any rights of redemption or distribution of assets on a liquidation or return of capital. The surplus assets of the company remaining after payment of its liabilities shall be applied a) first, in paying to each of the series A shareholders, series B shareholders, series C shareholders and series D shareholders in priority to any other shareholders, an amount per share held equal to the preference amount as defined in the company's articles plus any arrears and then b) the balance of any surplus assets shall be distributed among the holders of the C1 shares and the ordinary shares pro rata to the number of c-1 shares. The ordinary shares and C preferred shares of £0.01 have been redenominated into €0.01 shares the loss on translation has been taken to the share premium reserve.

Throughout the year 3,790 shares were issued for proceeds of €116k received in cash to employees as they exercised their share options, see note 19.

During the year 355,351 A Ordinary shares were issued to third parties, see note 3.

Throughout the year a further 35,666 D preferred shares and 724,459 E preferred shares were issued for proceeds of €82m received in cash.

Details of options granted in respect of the Company's ordinary and preferred shares are shown in note 19.

**16 Share premium and reserves**

**Group**

	Share premium account (restated) (note 1) €000	Share-based payment reserve €000	Profit and loss account €000
At 1 January 2016	82,348	13,689	(133,000)
Movement in the financial year	98,153	6,155	(74,475)
<b>At 31 December 2016</b>	<b>180,501</b>	<b>19,844</b>	<b>(207,475)</b>

**Company**

	Share premium account (restated) (note 1) €000	Share-based payment reserve €000	Profit and loss account €000
At 1 January 2016	82,348	13,689	(131,051)
Movement in the financial year	98,153	6,155	(72,850)
<b>At 31 December 2016</b>	<b>180,501</b>	<b>19,844</b>	<b>(203,901)</b>

*Share premium account*

This reserve records the amount above the nominal value received for shares sold, less transaction cost.

## Notes (continued)

### 17 Reconciliation of movement in shareholders' funds / (deficit)

	Group		Company	
	2016 €000	2015 €000	2016 €000	2015 €000
Loss for the financial year	(74,475)	(51,216)	(72,850)	(50,014)
Increase in share capital	11	2	11	2
Increase in share premium account	98,153	299	98,153	299
Increase in share based payment reserve	6,155	6,551	6,155	6,551
Movement in foreign exchange reserve	-	-	-	-
<b>Net movement in shareholders' funds / (deficit)</b>	<b>29,844</b>	<b>(44,364)</b>	<b>31,469</b>	<b>(43,162)</b>
Opening shareholders' funds / (deficit)	(36,927)	7,437	(34,978)	8,184
<b>Closing shareholders' funds / (deficit)</b>	<b>7,083</b>	<b>(36,927)</b>	<b>3,509</b>	<b>(34,978)</b>

### 18 Leasing commitment

	Group		Company	
	Land and buildings 2016 €000	2015 €000	Land and buildings 2016 €000	2015 €000
Operating leases which expire:				
Within one year	3,866	337	1,124	-
In two to five years	12,047	14,019	5,084	810
	<b>15,913</b>	<b>14,356</b>	<b>6,208</b>	<b>810</b>

### 19 Share schemes for employees and non-employees

#### Share based payments – Group

The Group recognised total expenses of €6,155,000 related to the non-employees and employee share based payments in the year (2015: €6,551,000). The employee share option scheme is open to all full-time employees.

The employee share option scheme enables employees to acquire Ordinary Shares in SoundCloud Limited at a given strike price. Options are exercisable at strike prices ranging from €0.01 to €61.23 per share depending on the point in time when the options were granted. Options granted in 2016 were at a strike price of € 40.81 and €61.23 each (2015: €61.23 each). Typically, the vesting period of any option package is four years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The number share options related to the employee share are as follows:

	Number of options	
	2016	2015
Outstanding at the beginning of the year	697,577	572,536
Granted during the year	203,233	203,912
Forfeited during the year	(27,533)	(69,366)
Exercised during the year	(3,790)	(9,505)
<b>Outstanding at the end of the year</b>	<b>869,487</b>	<b>697,577</b>
<b>Vested at the end of the year</b>	<b>491,731</b>	<b>355,555</b>

**Notes (continued)**

In 2016 in total 3,790 options were exercised (2015: 9,505). The options outstanding at the year-end have an exercise price in the range of €0.01 to €61.23 and a weighted average contractual life of 5.83 years (2015: 6.00 years).

Share options have been issued to non-employees in return for goods or services rendered. The options are to acquire 76,339 A Ordinary Shares in SoundCloud Limited at a strike price of €0.01 each, 43,927 D Preferred Shares at a strike price of €0.01 each and 7,899 E Preferred Shares at a strike price of €142.94 each.

**20 Notes to the cash flow statement**

	2016	2015 (restated) (note 1)
	€000	€000
Group loss for the financial year	(74,762)	(51,216)
Adjustments for:		
Tax on profit	417	1,056
Net interest expense	3,546	1,521
<b>Operating loss</b>	<b>(70,799)</b>	<b>(48,639)</b>
Amortisation of intangible assets	53	16
Depreciation of tangible assets	3,091	3,056
Share based payment charge	22,103	6,551
Working capital movements:		
- Increase in debtors	(24,571)	(6,367)
- Decrease in creditors	12,458	7,228
<b>Cash flow from operating activities</b>	<b>(57,665)</b>	<b>(38,155)</b>

**21 Pension scheme**

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to €202,966 (2015: €102,843).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

**22 Events after the reporting period**

In March 2017, SoundCloud Limited obtained a loan which was deployed to repay the loan obtained in 2015 (note 14). In August 2017, SoundCloud Limited obtained \$170 million investment led by The Raine Group, a global merchant bank, and Temasek, a Singapore-headquartered investment company. Existing investors including Union Square Ventures, Doughty Hanson and Atlantic Technology also participated. The loan obtained in March 2017 has been repaid in the context of the aforementioned transaction.

**23 Ultimate controlling party**

Since August 2017, the immediate parent undertaking is SoundCloud Holdings II Limited, Grand Cayman, Caymans Islands. The ultimate controlling party is SoundCloud Holdings LLC, Grand Cayman, Cayman Islands.



**Notes** *(continued)*

**24 Related party**

During the year the group did not entered into material transactions, in the ordinary course of business, with other related party transactions.

*Key management personnel*

All directors and certain senior employees who have authority and responsibility for planning directing and controlling the activities of the Group are considered to be key management personnel. Total remuneration in respect of these individuals is €231,000 (2015: €267,000)