SoundCloud Limited

Directors' report and consolidated financial statements

Registered number 06343600

For the year ended 31 December 2015

Contents

Company information

Directors	A Ljung CF Maire F Wilson
Secretary	Eriska Secretaries Limited
Company number	06343600
Registered office	c/o Jag Shaw Baker Berners House 47-48 Berners Street London W1T 3NF
Statutory auditor	Ernst & Young LLP Apex Plaza, Forbury Rd. Reading RG1 1YE
Banker	Deutsche Bank CIB GTB Ost Unter den Linden 13-15 10117 Berlin Germany

Strategic report

Business review

The year under review has seen a significant increase in the number of subscribers and users of our platform. In 2015 the main revenue stream was from our creator subscriber customer base. Additionally we have scaled our advertising business in the US. The increase in the number of subscribers and the build out of our advertising business has driven the 22% increase in revenue from €17.4 million to €21.1 million. Our gross profit margin is 54% *(2014: 50%)*.

We are in a phase of growing SoundCloud into the market leading platform for listening to, creating and sharing sound. This has necessitated investment in technology, headcount and marketing. Our overhead base has increased faster than our revenues. The operating loss for the year has therefore increased from €39.0 million for the year ended 31 December 2014 to an operating loss of €48.7 million for the year ended 31 December 2015.

The Group has made progress in improving their music platform by signing license deals with several large and small record companies, publishers, labels as well as independent artists. The Group expects to sign up further music companies as well as other rights holders and increase its investment in its music platform in advance of the launch of a user subscription service across various geographies, such as the US, UK, Ireland and France. During 2016, the Group has successfully raised further funding that allows it to build its business.

Key performance indicators

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

	2015	2014
	€000	€000
Turnover	**21,131**	**17,352**
EBITDA	**(45,567)**	**36,854)**
Loss on ordinary activities after tax	**(51,216)**	**(39,141)**

Risks and uncertainties

Our platform

SoundCloud is a hosting platform for content uploaded by registered users. We go to great lengths to protect against the use of our platform for the distribution of unauthorized or unlawful material, for example, through our implementation of technical measures such as content filtering[1], through the provision of self-serve takedown tools for rightsholders, by operating a process for the reporting and expeditious removal of infringing or unlawful content and the termination of the accounts of repeat offenders, and by providing information to educate and inform our users with respect to the content that they are permitted to upload. Despite these measures, we cannot guarantee that all content posted by users is free from unauthorized or unlawful material.

SoundCloud operates on a global basis. 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.

While we are committed to developing and maintaining tools, technologies and processes designed to protect against the use of our platform for the distribution of unauthorized or unlawful material, we cannot exclude the possibility that claims may be brought against the company based on allegations of copyright infringement or other violations arising from user-uploaded content hosted on our platform.

[1] SoundCloud analyses each audio file at the point of upload and compares the file against a database of known copyright works. If a match is returned the file is not published to the platform

Strategic report *(continued)*

Launch of new subscription services

In the second quarter of 2016, the Group began to launch new subscription services in the U.S., UK, France and Ireland. Subsequent roll-outs in other geographical areas have also been scheduled. These new subscription services will strongly support the goal of the group to monetize the platform, its unique content as well as content owned by other parties. The launch of the new subscription services bears financial risks regarding the operating results and cash flows of the group given the level of costs that will be incurred to support the growth in the business and the fact that there is no certainty over the levels of new subscribers and the churn rates on our subscribers.

The existence of these risks threatens the ability of the group to grow further and could require additional liquidity funds which have not yet been agreed

Competition

Typical internet users use about four to five different music and audio services during a month. The market is heavily contested by strong incumbents such as YouTube, Spotify, Apple and Amazon as well as new, more focused players. While the group does not expect the market to be a winner takes all opportunity, there are economies of scale and technology developments that need to be monitored closely.

Financial instrument risk

The group has established a risk and financial management framework whose primary objectives are to protect the group from events which hinder the achievement of the group's performance objectives. The objective aim is to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risks at the business level.

Exposure credit, Liquidity and cash flow risk

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 note12 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 that sufficient funding capacity is in place to meet the obligations as they fall due. Subsequent to the year end an additional round of funding was entered into to ensure that sufficient liquidity was in place to meet its obligations for a period of of at least 12 months.

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with the recognised asset of liability such as future interest payments on long term debt. The group manages this risk where significant as explained above.

Employees

As of 31 December 2015, the group employed 295 people across its Berlin, London, San Francisco and New York offices. A majority of these employees are tech savvy and highly-qualified innovators who want to work in a challenging environment where they can work on ground breaking technologies, big data, and innovative social networks. As such, there may be a risk to SoundCloud in attracting and retaining talent as it continuously must stay at the edge of technology and be able to identify new trends early and shape the way the internet evolves. In case the company is unable to build a product that can stay relevant for the music loving generation there exists a possibility that key employees may depart in order to work on other innovative opportunities.

By order of the board

A Ljung
Director

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

Date: 20 Dec 2016

Directors' report

The Directors present their Report and the Financial Statements of the Group and Company for the year ended 31 December 2015.

Directors of the company

The directors who served during the year were as follows:

A Ljung
CF Maire
F Wilson

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 for music professionals to receive, send and distribute their music to a broad, global audience of listeners.

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 April 2016 SoundCloud has obtained a significant equity investment lead by Twitter INC (vehicle Sandgrouse LLC) alongside various other existing investors of SoundCloud.

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 *(2014: £0)*.

Disclosure of information to auditor

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 auditor is unaware; and each director has taken

Directors' report *(continued)*

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 auditor is aware of that information.

Re-appointment of auditors

During the year KPMG resigned as auditors of the Group. Ernst & Young were subsequently duly appointed as auditors.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

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.

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. After making enquiries, the Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Group has made progress in improving their music platform by signing license deals with several large and small record companies, publishers, labels as well as independent artists. The Group expects to sign up further music companies as well as other rights holders and increase its investment in its music platform. The group has launched a user subscription service in the US and expect to launch of the user subscription service across various geographies, such as the UK, Ireland and France. The Group is currently loss making and the Group's business plan for the next three years forecasts that this will continue for the foreseeable future.

During 2016, the Group has successfully raised further funding that allows it to build its business.

As part of their going concern assessment, the Directors have reviewed trading and cash flow forecasts for the 15 months ended 31 December 2017 which take into consideration the uncertainties in the current operating environment as well as additional uncertainties from the launch of new subscription services

The assumption of a successful launch of the new subscription services is the key element of the financial projections for the next three years. The launch of the new subscription services is based on a conversion of existing users of the platform into subscribers of the new service as well as the acquisition of further subscribers.

The launch of the new subscription services bears financial risks regarding the operating results and cash flows of the group. The occurrence of these risks can seriously affect the ability of the group to generate sufficient cash to cover the planned expenditures and could require the Group to raise additional funds which have not yet been agreed.

Directors' report *(continued)*

Whilst the Directors believe that the Group will have sufficient funds to continue to meet its liabilities through 31 December 2017, the risks and uncertainties above may cause the company to run out of cash earlier than that date, and would require the Group to raise additional funds which are not currently planned. These matters give rise to a material uncertainty about the Group's ability to continue as a going concern. The Group continues to adopt the going concern basis in preparing the annual report and financial statements. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

By order of the board

A Ljung
Director

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

Date: 20 Dec 2016

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUNDCLOUD LIMITED

We have audited the financial statements of SoundCloud Limited for the year ended 31 December 2015 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group Cash Flow Statement, and the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 parent 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. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in note 1 to the company financial statements concerning the company's ability to continue as a going concern. The assumption of a successful launch of the new music subscription platform is a key element of the company's future commercial success and ability to continue in business. This situation, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUNDCLOUD LIMITED

(continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

David Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

24 December, 2016

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2015

	Notes	**2015**	2014
		€000	€000
Turnover	*2*	**21,131**	17,352
Cost of sales		**(9,821)**	(8,610)
Gross profit		**11,310**	8,742
Administrative expenses		**(59,949)**	(47,744)
Operating loss before exceptional items		**(48,639)**	(39,002)
Operating loss	*3*	**(48,639)**	(39,002)
Interest payable and similar charges	*7*	**(1,521)**	(1)
Loss on ordinary activities before taxation		**(50,160)**	(39,003)
Taxation	*8*	**(1,056)**	(138)
Loss for the financial year		**(51,216)**	(39,141)

In the current year and in the prior year, the company made no material acquisitions and had no discontinued operations.

Statement of changes in equity
for the year ended 31 December 2015

Group	Allotted and issued share capital	Share Premium	Share-based payment reserve	Foreign exchange reserve	Profit and loss account	Total equity
	€000	€000	€000	€000	€000	€000
At 1 January 2014	42	79,973	3,596	2	(42,643)	40,970
Loss for the year	-	-	-	-	(39,141)	(39,141)
Share based payment expense	-	-	3,542	-	-	3,542
New shares issued	1	2,067	-	-	-	2,068
Foreign exchange reserve	-	-	-	(2)	-	(2)
At 31December 2014	43	82,040	7,138	-	(81,784)	7,437
Loss for the year	-	-	-	-	(51,216)	(51,216)
Share based payment expense	-	-	6,551	-	-	6,551
New shares issued	2	299	-	-	-	301
At 31December 2015	45	82,339	13,689	-	(133,000)	(36,927)

Company	Allotted and issued share capital	Share Premium	Share-based payment reserve	Foreign exchange reserve	Profit and loss account	Total equity
	€000	€000	€000	€000	€000	€000
At 1 January 2014	42	79,973	3,596	-	(42,189)	41,422
Loss for the year	-	-	-	-	(38,848)	(38,848)
Share based payment expense	-	-	3,542	-	-	3,542
New shares issued	1	2,067	-	-	-	2,068
Foreign exchange reserve	-	-	-	-	-	-
At 31December 2014	43	82,040	7,138	-	(81,037)	8,184
Loss for the year	-	-	-	-	(50,014)	(50,014)
Share based payment expense	-	-	6,551	-	-	6,551
New shares issued	2	299	-	-	-	301
At 31December 2015	45	82,339	13,689	-	(131,051)	(34,978)

Consolidated balance sheet
at 31 December 2015

	Note	2015		2014	
		€000	€000	€000	€000
Fixed assets					
Intangible assets	*9*		198		27
Tangible assets	*10*		6,230		6,614
			6,428		6,641
Current assets					
Debtors	*12*	12,732		6,921	
Cash at bank and in hand		13,200		14,826	
		25,932		21,747	
Creditors: amounts falling due within one year	*13*	(27,844)		(20,951)	
Net current (liabilities) / assets			(1,912)		796
Total assets less current liabilities			4,516		7,437
Creditors: amounts falling due after more than one year	*14*		(41,443)		-
Net (liabilities) / assets			(36,927)		7,437
Capital and reserves					
Allotted and issued share capital	*15*		45		43
Share premium account	*16*		82,339		82,040
Share based payment reserves	*16*		13,689		7,138
Profit and loss account	*16*		(133,0000)		(81,784)
			(36,927)		7,437

The financial statements were approved by the board of directors on December 20, 2016 and were signed on their behalf by:

A Ljung
Director

Company Balance Sheet
at 31 December 2015

	Note	2015 €000	2015 €000	2014 €000	2014 €000
Fixed assets					
Intangible assets	*9*		198		27
Tangible assets	*10*		5,920		6,284
Investment.	*11*		2,732		1,823
			8,850		8,134
Current assets					
Debtors	*12*	24,105		7,564	
Cash at bank and in hand		12,449		12,519	
		36,554		20,083	
Creditors: amounts falling due within one year	*13*	(38,939)		(20,033)	
Net current liabilities)/assets			(2,385)		50
Total assets less current liabilities			6,465		8,184
Creditors: amounts falling due after more than one year	*14*		(41,443)		-
Net (liabilities)/assets			(34,978)		8,184
Capital and reserves					
Allotted and issued share capital	*15*		45		43
Share premium account	*16*		82,339		82,040
Share based payment reserve	*16*		13,689		7,138
Profit and loss account	*16*		(131,051)		(81,037)
			(34,978)		8,184

The financial statements were approved by the board of directors on December 20, 2016 and were signed on their behalf by:

A Ljung
Director

Company number: 06343600

Group statement of cash flows
for the year ended 31 December 2015

Group Statement of cash flows

	Note	2015 €000	2014 €000
Cash flow from operating activities	20	**(37,939)**	(27,941)
Returns on investments and servicing of finance	20	**(1,521)**	(1)
Taxation		**(1,056)**	(138)
Capital expenditure and financial investment	20	**(2,854)**	(5,415)
Cash outflow before financing		**(43,370)**	(33,495)
Financing	20	**41,744**	2,069
Decrease in cash in the period		**(1,626)**	(31,426)

Reconciliation of net cash flow to movement in net debt

	Note	2015 €000	2014 €000
Decrease in cash in the period	20	**(1,626)**	(31,426)
Cash from movement in debt and lease financing	20	-	-
Change in net cash resulting from cash flows		**(1,626)**	(31,426)
Movement in net cash in the period		**(1,626)**	(31,426)
Net cash at the start of the period		**14,826**	46,252
Net cash at the end of the period	20	**13,200**	14,826

Notes
(forming part of the financial statements)

1 Accounting policies

Statement of compliance

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. The Group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 December 2015.

The Group transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 25.

Basis of preparation

The financial statements of SoundCloud Limited were authorised for issue by the Board of Directors on October 14, 2016 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2015.

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.

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

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. After making enquiries, the Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Group has made progress in improving their music platform by signing license deals with several large and small record companies, publishers, labels as well as independent artists. The Group expects to sign up further music companies as well as other rights holders and increase its investment in its music platform in advance of the launch of a user subscription service across various geographies, such as the US, UK, Ireland and France. The Group is currently loss making and the Group's business plan for the next three years forecasts that this will continue for the foreseeable future.

During 2016, the Group has successfully raised further funding that allows it to build its business.

As part of their going concern assessment, the Directors have reviewed trading and cash flow forecasts for the 15 months ended 31 December 2017 which take into consideration the uncertainties in the current operating environment as well as additional uncertainties from the launch of new subscription services

The assumption of a successful launch of the new subscription services is the key element of the financial projections for the next three years. The launch of the new subscription services is based on a conversion of existing users of the platform into subscribers of the new service as well as the acquisition of further subscribers.

The launch of the new subscription services bears financial risks regarding the operating results and cash flows of the group. The occurrence of these risks can seriously affect the ability of the group to generate sufficient cash to

Notes *(continued)*

1 Accounting policies *(continued)*

cover the planned expenditures and could require the Company to raise additional funds which have not yet been agreed.

Whilst the Directors believe that the Company will have sufficient funds to continue to meet its liabilities through 30 September 2017, the risks and uncertainties above may cause the company to run out of cash earlier than that date, and would require the Company to raise additional funds which are not currently planned. These matters give rise to a material uncertainty about the Company's ability to continue as a going concern. The Company continues to adopt the going concern basis in preparing the annual report and financial statements. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

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

Turnover represents income receivable for subscription services provided and revenue received through promotion and advertising in the period, exclusive of Value Added Tax and trade discounts. 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 and promotion 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Loan notes

Loan notes which are basic financial instruments are initially recorded at the present value of future payments discounted at a market rate of interest for a similar loan. Subsequently, they are measured at amortised cost using the effective interest method. Loan notes that are receivable within one year are not discounted.

Notes *(continued)*

1 Accounting policies *(continued)*

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 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.

For share options 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.

Notes *(continued)*

2 Revenues

Turnover 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 in two principal areas of activity, that of subscription services and advertising services. All revenues arise in the European Union

3 Group operating loss

This is stated after charging/(crediting):	**2015** **€000**	2014 €000
Depreciation of owned assets (see note 10)	**3,064**	2,145
Amortisation of IT software (see note 9)	**8**	3
Foreign exchange differences	**370**	2,618
Auditors' remuneration (see note 4)	**28**	274
Operating lease rentals – land and buildings	**2,249**	1,324

4 Auditors remuneration

The remuneration of the auditors or its associates is further analysed as follows:	**2015** **€000**	2014 €000
Audit of the financial statements	**28**	55
Taxation services	-	207
Other non-audit services	-	12

5 Remuneration of directors

	2015 **€000**	2014 €000
Directors' emoluments	**267**	100

No directors accrued any benefits under the defined contributions scheme.

6 Staff costs

Staff costs	**2015 €000**	2014 €000
Wages and salaries	**26,765**	17,931
Share based payments (see note 19)	**5,249**	3,372
Social security costs	**3,485**	2,697
Other pension costs	**103**	592
	35,602	24,592

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

Number of employees	**2015**	2014
Product, Engineering & Design	**159**	123
Operations	**91**	73
Sales & Marketing	**45**	40
	295	236

7 Interest payable and similar charges

	2015 €000	2014 €000
Borrowings	**1,521**	-

Notes *(continued)*

8 Taxation

Analysis of charge in period

	2015 €000	2014 €000
Corporation tax - overseas		
Current tax	**829**	120
Adjustment in respect of prior years	**227**	18
Tax on loss on ordinary activities	**1,056**	138

Factors affecting the tax charge for the current period

The current tax charge for the year is higher *(2014: higher)* than the standard rate of corporation tax in Germany of 30.18% *(2014: 30.18%)*. The differences are explained below.

	2015 €000	2014 €000
Current tax reconciliation		
Loss on ordinary activities before tax	**50,160**	39,002
Current tax at 30.18% *(2014: 30.18%)*	**(15,138)**	(11,771)
Effects of:		
Expenses not deductible for tax purposes	**1,483**	673
Tax losses carried forward	**14,457**	11,210
Adjustment in respect of prior years	**227**	18
Effect of different tax rates	**27**	8
Total current tax charge	**1,056**	138

The group is taxable in Germany, 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 and Bulgaria.

Due to the uncertainty of recoverability, deferred taxation has not been provided in respect of tax losses carried forward of approximately €60 million *(2014: €46 million)*.

Notes *(continued)*

9 Intangible fixed assets

Group

	Assets under Construction €000	IT software €000	Total €000
Cost			
At beginning of year	-	41	41
Additions	179	-	179
At end of year	179	41	220
Accumulated amortisation			
At beginning of year	-	14	14
Charge for the year	-	8	8
At end of year	-	22	22
Net book value			
At 31 December 2015	**179**	**19**	**198**
At 31 December 2014	-	27	27

Parent Company

	Assets under Construction €000	IT software €000	Total €000
Cost			
At beginning of year	-	41	41
Additions	179	-	179
At end of year	179	41	220
Accumulated amortisation			
At beginning of year	-	14	14
Charge for the year	-	8	8
At end of year	-	22	22
Net book value			
At 31 December 2015	**179**	**19**	**198**
At 31 December 2014	-	27	27

Notes *(continued)*

10 Tangible fixed assets

Group

	Computer and office equipment €000	Total €000
Cost		
At beginning of year	9,802	9,802
Additions/transfer	2,838	2,838
Disposals	(135)	(135)
At end of year	12,505	12,505
Accumulated depreciation		
At beginning of year	3,210	3,210
Charge for the year	3,092	3,092
Disposals	(27)	(27)
At end of year	6,275	6,275
Net book value		
At 31 December 2015	**6,230**	**6,230**
At 31 December 2014	6,614	6,614

Parent Company

	Computer and office equipment €000	Total €000
Cost		
At beginning of year	9,405	9,405
Additions/transfer	2,656	2,656
Disposals	(103)	(103)
At end of year	11,958	11,958
Accumulated depreciation		
At beginning of year	3,121	3,121
Charge for the year	2,944	2,944
Disposals	(27)	(27)
At end of year	6,038	6,038
Net book value		
At 31 December 2015	**5,920**	**5,920**
At 31 December 2014	6,284	6,284

Notes *(continued)*

11 Investments held as fixed assets

	Shares in group undertakings €000
Cost and net book value	
At beginning of year	3,903
Share based payment charge for employees of subsidiaries	908
At end of year	4,811
Provisions	
At beginning of year	2,080
Impairment	-
At end of year	2,080
Net book value	
31 December 2015	**2,732**
At 31 December 2014	1,823

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
Subsidiary undertakings			
SoundCloud Inc.	USA	Support services	100%
Instinctiv Bulgaria EOOD	Bulgaria	Support services	100%
SoundCloud Operations Inc.	USA	Support services	100%

The investment valuation is dependent on the future cash flows expected to arise as a result of the launch of the music streaming platform and the directors have concluded that there is no impairment.

12 Debtors

	Group		Company	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Trade debtors	**1,967**	1,814	**8**	132
Amounts owed by group undertakings	-	-	**17,301**	4,032
Other debtors	**10,765**	5,107	**6,796**	3,400
	12,732	6,921	**24,105**	7,564

Notes *(continued)*

13 Creditors: amounts falling due within one year

	Group		Company	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Trade creditors	**3,394**	918	**3,086**	775
Other liabilities	**9,650**	421	**9,617**	421
Accruals and deferred income	**13,973**	19,550	**11,585**	18,774
Amounts owed to group undertakings	**-**	-	**13,824**	1
Other taxation and social security	**6**	-	**6**	-
Taxation	**821**	62	**821**	62
	27,844	20,951	**38,939**	20,033

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
11% secured loan of US$35,000,000 repayable on 1 October 2018	**32,234**	-	**32,234**	-
1% unsecured loan of US$10,000,000	**9,209**	-	**9,209**	-
	41,443	-	**41,443**	-

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

15 Allotted and issued share capital

	2015	2014
	€000	€000
Allotted, called up and fully paid:		
2,053,707 Ordinary shares of €0.01 each	**21**	19
76,339 A Ordinary shares of €0.01 each	**1**	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	**-**	-
494,736 D preferred shares of €0.01 each	**5**	5
	45	43

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.

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

Notes *(continued)*

16 Share premium and reserves

Group

	Share premium account €000	Share-based payment reserve €000	Foreign exchange reserve €000	Profit and loss account €000
At beginning of year	82,040	7,138	2	(81,784)
Movement in the financial year	299	6,551	(2)	(51,216)
At end of year	**82,339**	**13,689**	**-**	**(133,000)**

Parent Company

	Share premium account €000	Share-based payment reserve €000	Profit and loss account €000
At beginning of year	82,040	7,138	(81,037)
Movement in the financial year	299	6,551	(50,014)
At end of year	**82,339**	**13,689**	**(131,051)**

Share premium account

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

17 Reconciliation of movement in shareholders' funds

	Group		Company	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Loss for the financial year	**(51,216)**	(39,141)	**(50,014)**	(38,848)
Increase/(decrease) in share capital	**2**	1	**2**	1
Increase in share premium account	**299**	2,067	**299**	2,067
Increase in share based payment reserve	**6,551**	3,542	**6,551**	3,542
Movement in foreign exchange reserve	**-**	(2)		
Net movement in shareholders' funds	**(44,364)**	(33,533)	**(43,162)**	(33,238)
Opening shareholders' funds	**7,437**	40,970	**8,184**	41,422
Closing shareholders' funds	**(36,927)**	7,437	**(34,978)**	8,184

Notes *(continued)*

18 Leasing commitment

	Group Land and buildings		Company Land and buildings	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Operating leases which expire:				
Within one year	**337**	-	-	-
In two to five years	**14,019**	1,534	**810**	616
	14,356	1,534	**810**	616

19 Share schemes for employees and non-employees

Share based payments – Group

The Group recognised total expenses of €6,551,000 related to the non-employees and employee share based payments in the year *(2014: €3,542,000)*. 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 Ltd. 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 2015 were at a strike price of €61.23 each *(2014: €50.25 and €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 shares are as follows:

	Number of options	
	2015	2014
Outstanding at the beginning of the year	**572,536**	418,759
Granted during the year	**203,912**	179,167
Forfeited during the year	**(69,366)**	(22,480)
Exercised during the year	**(9,505)**	(2,910)
Outstanding at the end of the year	**697,577**	572,536
Vested at the end of the year	**355,555**	276,595

In 2015 in total 9,505 options were exercised *(2014: 2,910)*. 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 6.00 years *(2014: 6.54 years)*.

Share options have been issued to non-employees in return for goods or services rendered. The options are to acquire 63,789 A Ordinary Shares in SoundCloud Ltd. at a strike price of €0.01 each and 5,588 D Preferred Shares at a strike price of €142.94 each.

Notes *(continued)*

20 Notes to the statement of cash flows

(a) Reconciliation of profit to net cash outflow from operating activities

	2015 €000	2014 €000
Group loss for the year	(51,216)	(39,141)
Adjustments to reconcile profit for the year to net cash flow from operating activities		
Depreciation, amortisation and impairment charges	3,072	2,151
Increase in debtors	(5,811)	(5,967)
Increase in creditors	6,893	11,335
Net finance costs	1,521	1
Charge in relation to share based payments	6,551	3,542
Gain on disposal of fixed asset	(5)	-
Taxation	1,056	138
Net cash outflow from operating activities	(37,939)	(27,941)

(b) Analysis of cash flows

	2015 €000	Group 2014 €000
Returns on investment and servicing of finance		
Interest paid	(1,521)	(1)
	(1,521)	(1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(2,859)	(5,415)
Sale of tangible fixed asset	5	-
	(2,854)	(5,415)
Financing		
Issue of ordinary share capital	2	1
Issue of share premium	299	2,067
Borrowings	41,443	-
	41,744	2,068

(c) Cash and cash equivalents

	At beginning of year €000	Cash flow €000	At end of year €000
Cash and cash equivalents	14,826	(1,626)	13,200

Notes *(continued)*

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 €102,843 *(2014: €592,339).*

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

22 Events after the reporting period

In April 2016 SoundCloud has obtained a significant investment lead by Twitter INC (vehicle Sandgrouse LLC). followed by various of other existing investors of SoundCloud.

23 Ultimate controlling party

There is no ultimate controlling party.

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 €267,000 (2014 : € 100,000)

25 Transition to FRS 102

The group and company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2014. No material GAAP differences arose from the transition to FRS 102 from previously extant UK GAAP and therefor the implementation of FRS 102 has no material impact on the financial statements of SoundCloud Ltd.