

SoundCloud Limited

**Directors' report and financial
statements**

Registered number 6343600

31 December 2011

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Company information

Directors	A Ljung CF Maire S Tirtey F Wilson
Secretary	BR Secretaries Limited
Company number	06343600
Registered office	8 Clifford Street London Greater London W1S 2LQ
Statutory auditors	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH
Bankers	Deutsche Bank CIB GTB Ost Unter den Linden Berlin Germany

Directors' report

The directors present their report and financial statements for the year ended 31 December 2011

Principal activities

The principal activity of the company is the provision of an online platform for music professionals to receive, send and distribute their music in Germany and the rest of Europe

The company trades from Germany

There has not been any significant change in this activity during the year

Donations

Political and charitable donations did not exceed £2,000 in the year

Directors

The directors who served during the year were as follows

A Ljung
CF Maire
S Tirtey
F Wilson

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.

Auditors

During the year, Moore Stephens resigned as auditors of the company and KPMG LLP were appointed to fill the vacancy Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board


A Ljung
Director

Registered office:
8 Clifford Street
London
Greater London
W1S 2LQ

Dated 27 June 2012

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 financial statements in accordance with the Financial Reporting Standard for Smaller Entities (Effective April 2008) and applicable law (UK Generally Accepted Accounting Practice applicable to Smaller Entities)

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 company and of the profit or loss of the company for that period. In preparing these 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 company and to prevent and detect fraud and other irregularities.



Report of the independent auditors to the members of SoundCloud Limited

We have audited the financial statements of SoundCloud Limited for the year ended 31 December 2011 set out on pages 5 to 12. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (UK Generally Accepted Accounting Practice applicable to Smaller Entities)

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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, or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies regime

K Mackenzie (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

27 June 2012

Profit and loss account
for the year ended 31 December 2011

	<i>Note</i>	2011 €	2010 €
Turnover		4,328,871	1 370 219
Cost of sales		(2,898,291)	(1,173,707)
Gross profit		<u>1,430,580</u>	<u>196,512</u>
Administrative expenses		(5,188,759)	(1,765 092)
Operating loss	2	(3,758,179)	(1,568,580)
Other interest receivable and similar income		<u>20,800</u>	<u>15,413</u>
Loss on ordinary activities before taxation		(3,737,379)	(1,553,167)
Tax on loss on ordinary activities		(5,294)	-
Loss for the year	9	<u><u>(3,742,673)</u></u>	<u><u>(1,553 167)</u></u>

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations

There is no material difference between the result reported in the profit and loss account and the result on an unmodified historical cost basis

There were no other recognised gains or losses in addition to those presented above in either period

Balance sheet
as at 31 December 2011

	<i>Note</i>	2011		2010	
		€	€	€	€
Fixed assets					
Intangible assets	5		18,397		20 100
Tangible assets	6		989,597		125,997
			<hr/>		<hr/>
			1,007,994		146,097
Investment in subsidiary	4		17,860		-
Current assets					
Debtors	7	324,691		1,504,634	
Cash at bank and in hand		28,953,043		7,542,291	
			<hr/>		<hr/>
			29,277,734		9,046 925
Creditors amounts falling due within one year	8	(3,935,524)		(1,725,436)	
			<hr/>		<hr/>
Net current assets			25,342,210		7 321,489
Creditors: amounts falling due after more than one year					
Obligations under finance leases/hire purchase contracts	9		(224,835)		-
			<hr/>		<hr/>
Net assets			26,143,229		7 467 586
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	10		36,993		33,771
Share premium account	11		32,486,605		10,071,511
Profit and loss account	11		(6,380,369)		(2,637,696)
			<hr/>		<hr/>
Shareholders' funds	12		26,143,229		7 467 586
			<hr/> <hr/>		<hr/> <hr/>

The financial statements were approved by the board of directors on 27 June 2012 and were signed on their behalf by

A Ljung
Director

Company number 06343600

Notes

(forming part of the financial statements)

1 Accounting policies

The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements have been prepared in Euro. The European Central Bank year and exchange rate was GBP 0.8353 to the Euro. In the preceding year the financial statements were presented in GBP converted at the year end rate.

Going concern

The company has considerable financial resources with a growing subscriber base across different geographic areas. As a consequence, the directors believe the company is well placed to manage its business risks successfully despite the current uncertain economic climate.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing annual financial statements.

Turnover

Turnover represents income receivable for subscription services provided 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.

Depreciation of tangible fixed assets

Depreciation has been computed to write off the cost of fixed assets over their expected useful lives of between 3 and 7 years.

Amortisation of intangible assets

Intangible assets are being written off over their estimated economic life of 15 years.

Debtors

Debtors are shown after providing for any amounts which in the opinion of the directors may not be collected in full.

Deferred taxation

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.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign exchange

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

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.

Notes *(continued)*

2 Operating loss

	2011	2010
	€	€
<i>This is stated after charging</i>		
Depreciation and amortisation of owned assets	267,405	48,379
<i>Auditors' remuneration</i>		
Audit of these financial statements	23,851	6,905
	<u>267,405</u>	<u>48,379</u>

3 Directors remuneration

	2011	2010
	€	€
Directors' emoluments	85,771	114,987
	<u>85,771</u>	<u>114,987</u>

4 Subsidiaries

Name	Country of incorporation	Nature of Business	Share ownership
SoundCloud Inc	United States of America	Support services	100%

5 Intangible fixed assets

	Other
	€
<i>Cost</i>	
At 1 January 2011	53,765
Additions	3,302
	<u>57,067</u>
At 31 December 2011	57,067
<i>Accumulated amortisation</i>	
At 1 January 2011	33,665
Charge for the year	5,005
	<u>38,670</u>
At 31 December 2011	38,670
<i>Net book value</i>	
At 31 December 2011	18,397
	<u>18,397</u>
At 31 December 2010	20,100
	<u>20,100</u>

Notes (continued)

6 Tangible fixed assets

	Computer and office equipment €
<i>Cost</i>	
At 1 January 2011	163,926
Additions	1,127,330
Disposals	(41 391)
	1 249,865
<i>Accumulated depreciation</i>	
At 1 January 2011	37,929
Charge for the year	262 400
Disposals	(40,061)
	260,268
<i>Net book value</i>	
At 31 December 2011	989 597
At 31 December 2010	125,997

Included in computer and office equipment are assets owned by the company, which are subject to a finance lease arrangement. The net book value of these assets at the year end was €418,139 (2010 *€nil*) and they have been depreciated by €132,732 (2010 *€nil*) during the year.

7 Debtors

	2011 €	2010 €
<i>Due within one year</i>		
Trade debtors	5,115	9,478
Intercompany debtors	65,131	-
Other debtors	254,445	1,482,657
	324,691	1,492,135
<i>Due after more than one year</i>		
Other debtors	-	12 499
	324,691	1,504,634

Notes *(continued)*

8 Creditors' amounts falling due within one year

	2011 €	2010 €
Trade creditors	469,191	303,559
Obligations under finance leases and hire purchase contracts	217,113	-
Taxation and social security	7,925	1,009
Accruals and deferred income	3,241,295	1,420,868
	3,935,524	1,725,436
	3,935,524	1,725,436

9 Creditors: amounts falling due after more than one year

	2011 €	2010 €
Obligations under finance leases and hire purchase contracts	224,835	-
	224,835	-
	224,835	-

The maturity of obligations under finance leases and hire purchase contracts is as follows

	2011 €	2010 €
Within one year	235,116	-
In the second to fifth years	235,116	-
Over five years	-	-
	(28,284)	-
Less future finance charges	(28,284)	-
	441,948	-
	441,948	-

10 Share capital

	2011 €	2010 €
<i>Allotted, called up and fully paid</i>		
1,267,314 Ordinary shares of £0 01 each	18,872	18,872
678,333 A preferred shares of €0 01 each	6,783	6,783
818,195 B preferred shares of €0 01 each	8,182	8,116
341,846 C preferred shares of €0 01 each	3,156	-
	36,993	33,771
	36,993	33,771

During the year 6,665 B preferred shares of €0 01 were issued for a consideration of €10 25 each and 341,846 C preferred shares of €0 01 were issued for a consideration of €70 83 each

Notes (continued)

11 Reserves

	Share premium account €	Profit and loss account €
At 1 January 2011	10,071,511	(2,637,696)
On issue of shares during the year	22,415,094	-
Loss for the year	-	(3,742,673)
	<hr/>	<hr/>
At 31 December 2011	32,486,605	(6,380,369)
	<hr/> <hr/>	<hr/> <hr/>

12 Reconciliation of movement in shareholders' funds

	2011 €	2010 €
Loss for the year	(3,742,673)	(1,553,167)
Increase in share capital	3,222	6,996
Increase in share premium account	22,415,094	7,163,700
	<hr/>	<hr/>
Net movement in shareholders' funds	18,675,643	5,617,529
Opening shareholders' funds	7,467,586	1,850,057
	<hr/>	<hr/>
Closing shareholders' funds	26,143,229	7,467,586
	<hr/> <hr/>	<hr/> <hr/>

13 Leasing commitment

	Land and buildings		Other	
	2011 €	2010 €	2011 €	2010 €
<i>Operating leases which expire</i>				
Within one year	107,062	-	-	-
Between one to two years	-	64,680	-	-
Between two to five years	-	-	-	58,907
	<hr/>	<hr/>	<hr/>	<hr/>
	107,062	64,680	-	58,907
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14 Employee share schemes

The Company operates an equity-settled share-based payment scheme for employees. In the current year, a total of 136,800 options were granted to 71 employees, at a weighted average exercise price of €2.94. During prior years, a total of 106,300 options were granted to 9 employees, at a weighted average exercise price of €0.97. These share option grants vest typically over a four year period and are exercisable upon a liquidity event.

15 Ultimate controlling party

There is no ultimate controlling party.

Notes *(continued)*

16 Post balance sheet event

Following the year end the company acquired the entire share capital of Instictiv Bulgaria EOOD, a company incorporated in Bulgaria, and the trade and assets of Instictiv Technologies Inc, a company incorporated in the United States of America. Consideration included the allotment of 42,764 Series C shares which were issued on the date of acquisition.