

SoundCloud Limited

**Directors' report and consolidated
financial statements**

Registered number 06343600

For the year ended 31 December 2012

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Company information

Directors	A Ljung CF Maire S Tirtey F Wilson
Secretary	Eriska Secretaries Limited
Company number	06343600
Registered office	c/o Jag Shaw Baker 33 St James' Square London SW1Y 4JS
Statutory auditor	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH
Banker	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 2012

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

The company operates from Germany and has subsidiaries in USA and Bulgaria which provide sales and technical support

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

Business review

The year under review has seen a significant increase in the number of subscribers and users of our platform. In 2012 the main revenue stream was from our creator subscriber customer base and the increase in the number of subscribers has driven the 86% increase in revenue from €4.3 million to €8.0 million. Our gross margin has improved slightly to 50.9% (2011: 49.4%).

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 €4.4 million for the year ended 31 December 2011 to an operating loss of €12.4 million for the year ending 31 December 2012.

Principal risks and uncertainties

Intellectual Property and Related Risks

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*, 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.

* 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.

Directors' report *(continued)*

Business review *(continued)*

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.

Recruitment and retention of skilled workers

As of 31 December 2012, the group employed 173 people across its Berlin, London, San Francisco and Sofia 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 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.

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, 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. While SoundCloud is uniquely positioned in this field through its large catalogue of sound as well as through its heterogeneous user base, the future is uncertain and changing trends and business models may result in even stronger competition going forward.

Post Balance Sheet Events

On 15 October 2013 D preference shares were issued, raising sufficient capital to ensure the group's continued operation as a going concern.

Donations

Political and charitable donations did not exceed £200 in the year (2011: £Nil).

Directors

The directors who served during the year were as follows:

A Ljung
CF Maire
S Tirney
F Wilson

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 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.

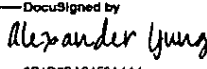
SoundCloud Limited
Directors' report and consolidated financial statements
For the year ended 31 December 2012

Directors' report *(continued)*

Auditor

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

By order of the board

DocuSigned by

9E1D6BA2458A4A1

A Ljung
Director

c/o Jag Shaw Baker
33 St James' Square
London
SW1Y 4JS

Date *19 Dec 2013*

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.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

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 2012 set out on pages 8 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 5, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, 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.

Independent auditor's report to the members of SoundCloud Limited *(continued)*

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



Karen MacKenzie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Date **20/12/13**

Consolidated profit and loss account
for the year ended 31 December 2012

	<i>Notes</i>	2012 €000	2011 €000
Turnover		8,040	4,329
Cost of sales		(3,950)	(2,191)
Gross profit		4,090	2,138
Administrative expenses		(16,489)	(6,570)
Operating loss	2	(12,399)	(4,432)
Other interest receivable and similar income		136	18
Interest payable and similar charges		(27)	(43)
Loss on ordinary activities before taxation		(12,290)	(4,457)
Taxation	5	(142)	(5)
Loss for the financial year	13	(12,432)	(4,462)

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations. In May 2012, the company acquired the entire share capital of Instinctiv Bulgaria EOOD, a company incorporated in Bulgaria and the trade and assets of Instinctiv Technologies Inc, a company incorporated in the United States of America. Further details are given in note 19.

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 year.

Statement of total recognised gains and losses
for the year ended 31 December 2012

	2012 €000	2011 €000
Loss for the financial year	(12,432)	(4,462)
Foreign exchange differences arising on consolidation	1	-
Total recognised gains and losses relating to the financial year	(12,433)	(4,462)

SoundCloud Limited
Directors' report and consolidated financial statements
For the year ended 31 December 2012

Consolidated balance sheet
as at 31 December 2012

	Note	2012 €000	2011 €000	€000
Fixed assets				
Intangible assets	8	1,852		18
Tangible assets	9	2,839		1,016
		<u>4,691</u>		<u>1,034</u>
Current assets				
Debtors	11	808	273	
Cash at bank and in hand		17,369	29,018	
		<u>18,177</u>	<u>29,291</u>	
Creditors: amounts falling due within one year	12	<u>(6,635)</u>	<u>(3,937)</u>	
Net current assets		<u>11,542</u>		<u>25,354</u>
Total assets less current liabilities		<u>16,233</u>		<u>26,388</u>
Creditors: amounts falling due after more than one year	13	-		(225)
Net assets		<u>16,233</u>		<u>26,163</u>
Capital and reserves				
Called up share capital	14	31		37
Share premium account	15	33,909		32,487
Share based payment reserves	15	1,824		739
Foreign exchange reserve	15	1		-
Profit and loss account	15	(19,532)		(7,100)
Shareholders' funds	16	<u>16,233</u>		<u>26,163</u>

The financial statements were approved by the board of directors on 17 Dec 2013 and were signed on their behalf by

DocuSigned by
Alexander Jung
Alexander Jung
Director

SoundCloud Limited
Directors' report and consolidated financial statements
For the year ended 31 December 2012

Company balance sheet
as at 31 December 2012

	Note	2012 €000	2011 €000
Fixed assets			
Intangible assets	8	13	18
Tangible assets	9	2,761	990
Investment	10	2,425	32
		<u>5,199</u>	<u>1,040</u>
Current assets			
Debtors	11	827	325
Cash at bank and in hand		17,241	28,953
		<u>18,068</u>	<u>29,278</u>
Creditors: amounts falling due within one year	12	<u>(6,588)</u>	<u>(3,936)</u>
Net current assets		<u>11,480</u>	<u>25,342</u>
Total assets less current liabilities		<u>16,679</u>	<u>26,382</u>
Creditors: amounts falling due after more than one year	13	-	(225)
Net assets		<u>16,679</u>	<u>26,157</u>
Capital and reserves			
Called up share capital	14	31	37
Share premium account	15	33,909	32,487
Share based payment reserve	15	1,824	739
Profit and loss account	15	(19,085)	(7,106)
Shareholders' funds	16	<u>16,679</u>	<u>26,157</u>

The financial statements were approved by the board of directors on 17 Dec 2013 and were signed on their behalf by

DocuSigned by

Alexander Jung

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A. Jung
Director

Company number 06343600

Consolidated cash flow statement
for the year ended 31 December 2012

	<i>Note</i>	2012 €000	2011 €000
Cash flow statement			
Cash flow from operating activities	20	(8,219)	(238)
Returns on investments and servicing of finance	21	109	(25)
Taxation		(140)	(5)
Capital expenditure and financial investment	21	(2,592)	(565)
Acquisitions and disposals	21	(597)	-
		<hr/>	<hr/>
Cash outflow before financing		(11,439)	(833)
Financing		(210)	22,309
		<hr/>	<hr/>
(Decrease)/increase in cash in the period		(11,649)	21,476
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt	22		
(Decrease)/increase in cash in the period		(11,649)	21,476
Cash outflow from increase in debt and lease financing		210	109
New finance lease		-	(551)
		<hr/>	<hr/>
Change in net cash resulting from cash flows		(11,439)	21,034
		<hr/>	<hr/>
Movement in net cash in the period		(11,439)	21,034
Net cash at the start of the period		28,576	7,542
		<hr/>	<hr/>
Net cash at the end of the period		17,137	28,576
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

As the company is no longer entitled to prepare financial statements under the small companies regime, the financial statements have, therefore, included comparable figures in respect to employee stock options and consolidated financial statements have been prepared

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Going concern

Following the share capital increase in October 2013 the company has sufficient cash for the group to continue to invest in the business whilst the revenue streams grow and the group becomes profitable

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2012. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. The estimated useful life of the group's goodwill is 7 years

Notes (continued)

1 Accounting policies (continued)

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 tangible fixed assets over their estimated useful economic life of between 3 and 7 years.

Amortisation of intangible assets

Intangible assets are being written off over their estimated economic life of between 7 and 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.

Investments

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated 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.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

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.

Notes (continued)

1 Accounting policies (continued)

Share based payments

The share option programme 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.

2 Notes to the profit and loss account

	2012 €000	2011 €000
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Depreciation and other amounts written off tangible and intangible fixed assets		
Owned	566	130
Leased	209	133
Amortisation of goodwill	166	-
Amortisation of IT software	5	-
Hire of plant and machinery	42	-
Operating leases		
Hire of other assets	424	411
	<hr/>	<hr/>
<i>Auditors' remuneration</i>		
Audit of these financial statements	24	19
Amounts receivable by the company's auditor and its associates in respect of		
Audit of financial statements of subsidiaries of the company		
Taxation compliance services	2	2
	26	21
	<hr/>	<hr/>

3 Remuneration of directors

	2012 €000	2011 €000
Directors' emoluments	99	97
	<hr/>	<hr/>

No directors accrued any benefits under the defined contributions scheme

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows

Group

	Number of employees	
	2012	2011
Builders	55	19
Operators	22	8
Pushers	32	11
	<u>109</u>	<u>38</u>

The aggregate payroll costs of these persons were as follows

	€000	€000
Wages and salaries	6,932	2,454
Share based payments (see note 18)	1,084	739
Social security costs	1,082	458
Other pension costs	98	3
	<u>9,196</u>	<u>3,654</u>

5 Interest receivable and similar income

	2012	2011
	€000	€000
Bank interest	<u>136</u>	<u>18</u>

6 Interest payable and similar charges

	2012	2011
	€000	€000
On finance leases	<u>27</u>	<u>43</u>

7 Taxation

Analysis of charge in period

	2012	2011
	€000	€000
Corporation tax		
Current tax	<u>142</u>	<u>5</u>
Tax on loss on ordinary activities	<u>142</u>	<u>5</u>

Notes (continued)

7 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2011: higher) than the standard rate of corporation tax in Germany of 30.18% (2011: 30.18%). The differences are explained below:

	2012 €000	2011 €000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(12,290)	(4,457)
	<hr/>	<hr/>
Current tax at 30.18% (2011: 30.18%)	(3,709)	(1,345)
	<hr/>	<hr/>
<i>Effects of</i>		
Expenses not deductible for tax purposes	107	-
Tax losses carried forward	3,739	1,350
Effect of different tax rates	5	-
	<hr/>	<hr/>
Total current tax charge (see above)	142	5
	<hr/>	<hr/>

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 €19 million (2011: €6 million).

8 Intangible fixed assets

Group	Goodwill €000	IT software €000	Total €000
<i>Cost</i>			
At beginning of year	-	57	57
Additions	2,005	-	2,005
	<hr/>	<hr/>	<hr/>
At end of year	2,005	57	2,062
	<hr/>	<hr/>	<hr/>
<i>Accumulated amortisation</i>			
At beginning of year	-	39	39
Charge for the year	166	5	171
	<hr/>	<hr/>	<hr/>
At end of year	166	44	210
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2012	1,839	13	1,852
	<hr/>	<hr/>	<hr/>
At 31 December 2011	-	18	18
	<hr/>	<hr/>	<hr/>

Notes (continued)

8 Intangible fixed assets (continued)

Company

	IT software €000
<i>Cost</i>	
At beginning and end of year	57
<i>Accumulated depreciation</i>	
At beginning of year	39
Charge for the year	5
At end of year	44
<i>Net book value</i>	
At 31 December 2012	13
At 31 December 2011	18

9 Tangible fixed assets

Group

	Assets under construction €000	Computer and office equipment €000	Total €000
<i>Cost</i>			
At beginning of year	-	1,277	1,277
Additions	91	2,507	2,598
At end of year	91	3,784	3,875
<i>Accumulated depreciation</i>			
At beginning of year	-	261	261
Charge for the year	-	775	775
At end of year	-	1,036	1,036
<i>Net book value</i>			
At 31 December 2012	91	2,748	2,839
At 31 December 2011	-	1,016	1,016

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 €209,069 (2011: €418,139) and they have been depreciated by €209,069 (2011: €132,732) during the year.

Notes (continued)

9 Tangible fixed assets (continued)

Company	Assets under construction	Computer and office equipment	Total
	€000	€000	€000
Cost			
At beginning of year	-	1,250	1,250
Additions	91	2,440	2,531
At end of year	91	3,690	3,781
Accumulated amortisation			
At beginning of year	-	260	260
Charge for the year	-	760	760
At end of year	-	1,020	1,020
Net book value			
At 31 December 2012	91	2,670	2,761
At 31 December 2011	-	990	990

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 €209,069 (2011: €418,139) and they have been depreciated by €209,069 (2011: €132,732) during the year.

10 Investments held as fixed assets

	Shares in group undertakings
	€000
Cost and net book value	
At beginning of year	32
Investment in new subsidiary	2,083
Share based payment charge for employees of subsidiaries	310
At end of year	2,425
Provisions	
At beginning and end of year	-
Net book value	
31 December 2012	2,425
At 31 December 2011	32

SoundCloud Limited
Directors' report and consolidated financial statements
For the year ended 31 December 2012

Notes (continued)

10 Investments held as fixed assets (continued)

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%
Instinctiv Bulgaria EOOD	Bulgaria	Support services and software development	100%

11 Debtors

	Group		Company	
	2012 €000	2011 €000	2012 €000	2011 €000
Trade debtors	18	5	18	5
Amounts owed by group undertakings	-	-	50	65
Other debtors	790	268	759	255
	<u>808</u>	<u>273</u>	<u>827</u>	<u>325</u>

12 Creditors: amounts falling due within one year

	Group		Company	
	2012 €000	2011 €000	2012 €000	2011 €000
Trade creditors	738	470	682	469
Obligations under finance leases and hire purchase contracts	232	217	232	217
Taxation and social security	31	18	16	8
Accruals and deferred income	5,634	3,232	5,634	3,242
Amounts owed to group undertakings	-	-	25	-
	<u>6,635</u>	<u>3,937</u>	<u>6,588</u>	<u>3,936</u>

13 Creditors: amounts falling due after more than one year

	Group		Company	
	2012 €000	2011 €000	2012 €000	2011 €000
Obligations under finance leases and hire purchase contracts	-	225	-	225
	<u>-</u>	<u>225</u>	<u>-</u>	<u>225</u>

Notes (continued)

13 Creditors' amounts falling due after more than one year (continued)

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

	Group		Company	
	2012 €000	2011 €000	2012 €000	2011 €000
Within one year	232	217	232	217
In the second to fifth years	-	225	-	225
	<u>232</u>	<u>442</u>	<u>232</u>	<u>442</u>

14 Share capital

	2012 €000	2011 €000
<i>Allotted, called up and fully paid</i>		
1,267,254 Ordinary shares of €0.01 each (2011: 1,293,610 ordinary shares of €0.01 each)	13	19
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 (2011: 315,550 preferred shares of €0.01 each)	3	3
42,074 C1 preferred shares of €0.01 each	-	-
	<u>31</u>	<u>37</u>

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 and series C 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.

On 23 May 2012, 42,074 C1 preferred shares were issued as consideration for the Instinctiv acquisition. The fair value of the shares at that date was €1,416,000.

15 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	32,487	739	-	(7,100)
Movement in the financial year	1,422	1,085	1	(11,432)
At end of year	<u>33,909</u>	<u>1,824</u>	<u>1</u>	<u>(19,532)</u>

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Notes (continued)

15 Share premium and reserves (continued)

Company

	Share premium account €000	Share-based payment reserve €000	Profit and loss account €000
At beginning of year	32,487	739	(7,106)
Movement in the financial year	1,422	1,085	(11,979)
At end of year	33,909	1,824	(19,085)

16 Reconciliation of movement in shareholders' funds

	2012 €000	Group 2011 €000	2012 €000	Company 2011 €000
Loss for the financial year	(12,432)	(4,462)	(11,979)	(4,468)
(Decrease)/increase in share capital	(6)	3	(6)	3
Increase in share premium account	1,422	22,415	1,422	22,415
Increase in share based payment reserve	1,085	739	1,085	739
Movement in foreign exchange reserve	1	-	-	-
Net movement in shareholders' funds	(9,930)	18,695	(9,478)	18,689
Opening shareholders' funds	26,163	7,468	26,157	7,468
Closing shareholders' funds	16,233	26,163	16,679	26,157

17 Leasing commitment

Group

	Land and buildings		Other	
	2012 €000	2011 €000	2012 €000	2011 €000
Operating leases which expire				
Within one year	50	134	-	-
In two to five years	742	-	-	-
	792	134	-	-

Company

	Land and buildings		Other	
	2012 €000	2011 €000	2012 €000	2011 €000
Operating leases which expire				
Within one year	-	107	-	-
In two to five years	727	-	-	-
	727	107	-	-

Notes (continued)

18 Employee share schemes

Share based payments – Group

The Group recognised total expenses of €1,085,000 related to the employee share scheme in the year (2011: €739,000). The employee share option scheme is open to all full-time employees.

The 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 €22.74 per share depending on the point in time when the options were granted. Options granted in 2012 were at a strike price of €22.74 each (2011: €2.94). 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 in are as follows:

	Number of options	
	2012	2011
Outstanding at the beginning of the year	236,986	106,300
Granted during the year	105,235	137,186
Forfeited during the year	(13,415)	(6,500)
Exercised during the year	-	-
	<hr/>	<hr/>
Outstanding at the end of the year	328,806	237,486
	<hr/>	<hr/>
Vested at the end of the year	147,159	104,108
	<hr/>	<hr/>

No options were exercised in 2011 or 2012.

The options outstanding at the year end have an exercise price in the range of €0.01 to €22.74 and a weighted average contractual life of 7.64 years (8.32 years in 2011).

Notes (continued)

19 Acquisitions

In May 2012, the company acquired the entire share capital of Instinctiv Bulgaria EOOD, a company incorporated in Bulgaria, and the trade and assets of Instinctiv Technologies Inc, a company incorporated in the United States of America. Consideration included the allotment of 42,074 series C1 shares which were issued on 23 May 2012.

	€000
Fair value of net assets acquired	
Tangible fixed assets	6
Taxation recoverable	2
Cash at bank and in hand	69
	<hr/> 77
Goodwill	2,005
	<hr/>
Total cost of acquisition	2,082
	<hr/>
Satisfied by	
Fair value of shares allotted (42,074 shares of € 0.01 each)	1,416
Costs associated with acquisition	208
Salary bonus payment	398
Other	60
	<hr/>
Total cost of acquisition	2,082
	<hr/>
Cash cost of acquisition	
Costs associated with acquisition	208
Salary bonus payment	398
Other	60
Cash acquired	(69)
	<hr/>
	597
	<hr/>

The acquired undertaking made a profit before tax of €33,000 from the beginning of its financial year to the date of acquisition.

20 Reconciliation of operating loss to operating cash flows

	2012 €000	2011 €000
Operating loss	(12,399)	(4,432)
Depreciation, amortisation and impairment charges	946	228
(Increase)/decrease in debtors	(535)	1,231
Increase in creditors	2,684	1,996
Charge in relation to share based payments	1,085	739
	<hr/>	<hr/>
Net cash inflow from continuing activities	(8,219)	(238)
	<hr/>	<hr/>

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Notes (continued)

21 Analysis of cash flows

	<i>Notes</i>	2012 €000	Group 2011 €000
Returns on investment and servicing of finance			
Interest received		136	18
Interest element of finance lease rental payments		(27)	(43)
		<u>109</u>	<u>(25)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		<u>2,592</u>	<u>565</u>
Acquisitions and disposals			
Purchase of subsidiary undertaking	19	<u>597</u>	<u>-</u>
Financing			
Issue of ordinary share capital		-	22,418
Capital element of finance lease rental payments		(210)	(109)
		<u>(210)</u>	<u>22,309</u>

22 Analysis of net debt

	At beginning of year €000	Cash flow €000	At end of year €000
Cash in hand, at bank	29,018	(11,649)	17,369
Finance leases	(442)	210	(232)
Total	<u>28,576</u>	<u>(11,439)</u>	<u>17,137</u>

23 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 €98,000 (2011: £3,000).

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

24 Post balance sheet events

On 15 October 2013 D preference shares were issued, raising sufficient capital to ensure the group's continued operation as a going concern.

25 Ultimate controlling party

There is no ultimate controlling party.