Electronically Filed
Docket: 16-CRB-0003-PR (2018-2022) (Remand)
Filing Date: 07/02/2021 11:54:31 PM EDT

VOLUME 2

OF COPYRIGHT OWNERS' REPLY REMAND SUBMISSION

PUBLIC VERSION

Before the
COPYRIGHT ROYALTY BOARD
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of: DETERMINATION OF RATES AND TERMS FOR MAKING AND DISTRIBUTING PHONORECORDS (PHONORECORDS III)	Docket No. 16–CRB–0003–PR (2018–2022) (Remand)

REPLY REMAND SUBMISSION OF COPYRIGHT OWNERS

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TAB A

Before the
UNITED STATES
COPYRIGHT ROYALTY JUDGES
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of: DETERMINATION OF RATES AND TERMS FOR MAKING AND DISTRIBUTING PHONORECORDS (PHONORECORDS III)	Docket No. 16–CRB–0003–PR (2018–2022) (Remand)

INDEX OF REMAND EXHIBITS
SUBMMITED ON BEHALF OF COPYRIGHT OWNERS

Exhibit No.	**Sponsoring Witness**	**Description**
CO Rem. Ex. A	Jeffrey A. Eisenach	Compendium of: Amazon Royalty Data from MLC **(Restricted)** Ex. A to Mirchandani Remand Testimony **(Restricted)** AMZN_REMAND_00008223 **(Restricted)** AMZN_REMAND_00007576 **(Restricted)**
CO Rem. Ex. B	Jeffrey A. Eisenach	Compendium of Google Royalty Data from MLC **(Restricted)**
CO Rem. Ex. C	Jeffrey A. Eisenach	Compendium of Pandora Royalty Data from MLC **(Restricted)**
CO Rem. Ex. D	Jeffrey A. Eisenach	Compendium of Spotify Royalty Data from MLC **(Restricted)**
CO Rem. Ex. E	Jeffrey A. Eisenach	Compendium of Pandora/SiriusXM SEC Filings (Excerpts)
CO Rem. Ex. F	Jeffrey A. Eisenach	Compendium of Spotify SEC Filings (Excerpts)
CO Rem. Ex. G	Jeffrey A. Eisenach	Spotify Consolidated Financial Statements as at Dec. 31, 2016
CO Rem. Ex. H	Jeffrey A. Eisenach	Compendium of Sirius XM Earnings Calls
CO Rem. Ex. I	Jeffrey A. Eisenach	Compendium of Spotify Earnings Calls

CO Rem. Ex. J	Jeffrey A. Eisenach	Compendium of Spotify Shareholder Letters (Q1 2018 – Q3 2020)
CO Rem. Ex. K	Jeffrey A. Eisenach	Spotify Q1 2021 Press Release
CO Rem. Ex. L	Jeffrey A. Eisenach	Alphabet Inc., "Alphabet Announces First Quarter 2021 Results"
CO Rem. Ex. M	Jeffrey A. Eisenach	Alphabet Market Cap Chart
CO Rem. Ex. N	Jeffrey A. Eisenach	Amazon Market Cap Chart
CO Rem. Ex. O	Jeffrey A. Eisenach	S&P Global, "The Economics of Internet Music Radio, 2020" (Excerpt)
CO Rem. Ex. P	Jeffrey A. Eisenach	Compendium of HFA 2018 Monthly Statements of Account (Spotify) **(Restricted)**
CO Rem. Ex. Q	Jeffrey A. Eisenach	Transcript of Remand Deposition of Dr. Katz (Excerpts) **(Restricted)**
CO Rem. Ex. R	Jeffrey A. Eisenach	Transcript of Remand Deposition of Dr. Marx (Excerpts) **(Restricted)**
CO Rem. Ex. S	Jeffrey A. Eisenach	Dr. Katz July 13, 2009 Declaration
CO Rem. Ex. T	Jeffrey A. Eisenach	Compendium of Services' April 16, 2021 Interrogatory Objections **(Restricted)**
CO Rem. Ex. U	Richard Watt	Compendium of Services' May 7, 2021 Interrogatory Responses **(Restricted)**
CO Rem. Ex. V	Daniel Spulber	Nasdaq.com, Spotify Ordinary Share Stock Price
CO Rem. Ex. W	Jeffrey A. Eisenach	Factset, Spotify Financials Q1 – Q4 2016
CO Rem. Ex. X	Jeffrey A. Eisenach	Amazon, "The Amazon Prime Membership Fee"

TAB B

CO Rem. Ex. A

FILED UNDER SEAL

CO Rem. Ex. B

FILED UNDER SEAL

CO Rem. Ex. C

FILED UNDER SEAL

CO Rem. Ex. D

FILED UNDER SEAL

CO Rem. Ex. E

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(g) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, $0.0001 par value	The New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter)

during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

	Nine months ended September 30,			
	2015		2016	
	RPM	LPM	RPM	LPM
Subscription	$ 82.84	$ 49.95	$ 80.98	$ 35.88

Subscription RPMs

For the nine months ended September 30, 2016 compared to 2015, the decrease in subscription RPMs was due to the growth in subscription listening hours outpacing the growth in subscription and other revenue.

Subscription LPMs

For the nine months ended September 30, 2016 compared to 2015, subscription LPMs decreased as a result of the one-time cumulative charges in the quarter ended September 30, 2015 of $57.9 million for the pre-1972 sound recordings settlement and $23.9 million as a result of management's decision to forgo the application of the RMLC publisher royalty rate from June 2013 to September 2015 and a decrease in the rate for content acquisition costs of 12% on our subscription-supported platform related to the Web IV rates set by the Copyright Royalty Board on December 16, 2015, offset by increases in content acquisition costs paid to PROs and publishers under the content acquisition cost structure of our new publishing licenses.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. Our results of operations for the year ended December 31, 2015 include operating results of Ticketfly for the two months ended December 31, 2015. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Year ended December 31,		
	2014	2015	2016
Revenue			
Advertising	80 %	80 %	77 %
Subscription and other	20	19	16
Ticketing service	—	1	6
Total revenue	100	100	100
Cost of revenue			
Cost of revenue—Content acquisition costs	48	52	53
Cost of revenue—Other(1)	7	7	7
Cost of revenue—Ticketing service(1)	—	—	4
Total cost of revenue	55	60	65
Gross profit	45	40	35
Operating expenses			
Product development(1)	6	7	10
Sales and marketing(1)	30	34	35
General and administrative(1)	12	13	13
Total operating expenses	48	55	58
Loss from operations	(3)	(15)	(23)
Interest expense	—	—	(2)
Other income (expense), net	—	—	—
Total other income (expense), net	—	—	(2)
Loss before provision for income taxes	(3)	(15)	(25)
Provision for income taxes	—	—	—
Net loss	(3)%	(15)%	(25)%
(1) Includes stock-based compensation as follows:			
Cost of revenue—Other	0.5%	0.5%	0.4%
Cost of revenue—Ticketing service	—	—	—
Product development	1.9	2.0	2.2
Sales and marketing	4.6	4.5	4.2
General and administrative	2.5	2.5	3.1
Note: Amounts may not recalculate due to rounding			

Revenue

	Year ended December 31,			Year ended December 31,		
	2014	2015	$ Change	2015	2016	$ Change
	(in thousands)			(in thousands)		
Revenue						
Advertising	$ 732,338	$ 933,305	$ 200,967	$ 933,305	$ 1,072,490	$ 139,185
Subscription and other	188,464	220,571	32,107	220,571	225,786	5,215
Ticketing service	—	10,167	10,167	10,167	86,550	76,383
Total revenue	$ 920,802	$ 1,164,043	$ 243,241	$ 1,164,043	$ 1,384,826	$ 220,783

Advertising revenue

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-throughs. We also have arrangements with advertising agencies under which these agencies sell advertising inventory on our service directly to advertisers. We report revenue under these arrangements net of amounts due to agencies. For the years ended December 31, 2014, 2015 and 2016, advertising revenue accounted for 80%, 80% and 77%, of our total revenue, respectively. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the year ended December 31, 2016 compared to 2015, advertising revenue increased $139.2 million or 15%, primarily due to an approximate 10% increase in the average price per ad sold, due in part to our increase in relative volume of local ad sales and our focus on monetizing mobile inventory.

For the year ended December 31, 2015 compared to 2014, advertising revenue increased by $201.0 million or 27%, primarily due to an approximate 25% increase in the average price per ad sold, due in part to our increase in relative volume of local ad sales and our focus on monetizing mobile inventory, and an approximate 5% increase in the number of ads sold, primarily due to an increase in advertising listener hours.

Subscription and other revenue

Prior to the launch of Pandora Plus, subscription and other revenue was generated primarily through the sale of Pandora One. Subsequent to the launch of Pandora Plus, subscription and other revenue is generated primarily through the sale of Pandora Plus. Pandora Plus is an enhanced version of the Pandora service, which currently includes features such as replays, additional skipping and offline listening, together with advertisement-free access and higher audio quality on the devices that support it. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the years ended December 31, 2014, 2015 and 2016, subscription and other revenue accounted for 20%, 19% and 16% of our total revenue, respectively.

Effective in March 2014, we implemented a change in the pricing structure for our subscription service under which the $36 annual subscription option was eliminated. In addition, effective in May 2014, the monthly pricing option for our subscription service was increased to $4.99 per-month for new subscribers. Existing monthly subscribers who did not lapse maintained the $3.99 per-month pricing structure, and existing annual subscribers who did not lapse were migrated to the $3.99 per-month monthly pricing structure. Effective in December 2014, we reinstated the annual subscription option at $54.89 per year.

For the year ended December 31, 2016 compared to 2015, subscription revenue increased $5.2 million or 2%, primarily due to an approximate 10% increase in the number of subscribers, offset by an agreement for which the term expired in December 2015, which was recorded in other revenue.

For the year ended December 31, 2015 compared to 2014, subscription and other revenue increased by $32.1 million, or 17%, primarily due to an approximate 15% increase in the average price per subscription as a result of the change in the pricing structure of our subscription service and due to an approximate 10% increase in the number of subscribers.

Ticketing service

Ticketing service revenue is generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket, which generally increases as the face value of the ticket increases, or a percentage of the total convenience charge and order processing fee, for its services at the time the ticket for an event is sold. Ticketing service revenue is recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. As Ticketfly was acquired on October 31, 2015, the consolidated statements of operations include ticketing service revenue for the two months ended December 31, 2015 and the year ended December 31, 2016. We had no ticketing service revenue in the year ended December 31, 2014.

For the years ended December 31, 2015 and 2016, ticketing service revenue accounted for approximately 1% and 6% of our total revenue. In the year ended December 31, 2016 Ticketfly provided ticketing services for approximately 115 thousand live events on sale, for which approximately 15.2 million tickets, excluding box office sales, were sold to approximately 5.3 million unique ticket buyers, which resulted in more than $615.0 million in gross transaction value, excluding box office sales.

Deferred revenue

Our deferred revenue consists primarily of prepaid but unrecognized subscription revenue and, to a lesser extent, advertising fees received or billed in advance of the delivery or completion of the delivery of services. Deferred revenue is recognized as revenue when the services are provided and all other revenue recognition criteria have been met.

In addition, subscription revenue derived from sales through certain mobile device app stores may be subject to refund or cancellation terms which may affect the timing or amount of the subscription revenue recognition. When refund rights exist, we recognize revenue when services have been provided and the rights lapse or when we have developed sufficient transaction history to estimate a return reserve.

We were required to defer revenue for certain subscriptions purchased through mobile device app stores that contained refund rights until the refund rights lapsed or until we developed sufficient operating history to estimate a return reserve. As of December 31, 2013, we had deferred all revenue related to these mobile subscriptions subject to refund rights totaling approximately $14.2 million, as we did not have sufficient transaction history to estimate a return reserve. Beginning in January 2014, we had sufficient transaction history that enabled us to estimate future returns. Accordingly, in January 2014, we began recording revenue related to these mobile subscriptions net of estimated returns. This resulted in a one-time increase in subscription revenue in the quarter ended March 31, 2014 of approximately $14.2 million, as the previously deferred revenue was recognized. As of December 31, 2016, the deferred revenue related to the return reserve was not significant.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue—ticketing. Our operating expenses consist of product development, sales and marketing and general and administrative costs. Cost of revenue—content acquisition costs are the most significant component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses. We expect to continue to hire additional employees in order to support our anticipated growth and our product development initiatives. In any particular period, the timing of additional hires could materially affect our cost of revenue and operating expenses, both in absolute dollars and as a percentage of revenue. We anticipate that our costs and expenses will increase in the future.

Cost of revenue—Content acquisition costs

	Year ended December 31,			Year ended December 31,		
	2014	2015	$ Change	2015	2016	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Content acquisition costs	$ 446,377	$ 610,362	$ 163,985	$ 610,362	$ 734,353	$ 123,991

Cost of revenue—content acquisition costs principally consist of licensing fees paid for streaming music or other content to our listeners. Content acquisition costs are currently calculated using negotiated rates documented in direct license agreements with major and independent record labels, music publishers and PROs. Prior to September 15, 2016, the majority of our content acquisition costs for sound recordings were based on a fee per public performance of a sound recording. Subsequent to September 15, 2016, depending on the applicable service, these license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount, all generally subject to certain discounts. Prior to January 1, 2016, the majority of our content acquisition costs for the underlying musical works contained in sound recording were based on a percentage of our revenue. From January 1, 2016 until September 15, 2016, the majority of our content acquisition costs for the underlying musical works were based on a percentage of content acquisition costs paid for sound recordings. Subsequent to September 15, 2016, the majority of our content acquisition costs for the underlying musical works contained in sound recordings are determined in the same manner they were prior to September 15, 2016, but this calculation only applies to the performance rights on our ad-supported service and content acquisition costs for the reproduction rights on our subscription services are determined in accordance with the statutory license set forth in 17 U.S.C. §115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available.

For the year ended December 31, 2016 compared to 2015, content acquisition costs increased $124.0 million or 20%, and total content acquisition costs as a percentage of total revenue increased from 52% to 53%, primarily due to an increase in content acquisition costs subject to the license agreements for recorded music with major and independent labels, distributors, PROs and publishers that were signed in 2015 and 2016. The increase was offset by one-time cumulative charges in the year ended December 31, 2015 of $57.9 million for the pre-1972 sound recordings settlement and $23.9 million as a result of management's decision to forgo the application of the RMLC publisher royalty rate from June 2013 to September 2015.

For the year ended December 31, 2015 compared to 2014, content acquisition costs increased by $164.0 million or 37%, and content acquisition costs as a percentage of total revenue increased from 48% to 52%, primarily due to an increase of $65.4 million related to pre-1972 sound recordings in the year ended December 31, 2015, of which $57.9 million was related to a one-time cumulative charge to cost of revenue—content acquisition costs for the pre-1972 sound recordings settlement. In addition, cost of revenue—content acquisition costs increased by $28.2 million related to publisher royalty rate increases in the year ended December 31, 2015, of which $23.9 million was related to a one-time cumulative charge to cost of revenue—content acquisition as a result of our decision to forgo the application of the RMLC publisher royalty rate from June 2013 to September 2015. Cost of revenue—content acquisition costs also increased due to scheduled sound-recording royalty rate increases of 8%.

Cost of Revenue—Other

	Year ended December 31,			Year ended December 31,		
	2014	2015	$ Change	2015	2016	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Other	$ 61,627	$ 79,858	$ 18,231	$ 79,858	$ 101,289	$ 21,431

Cost of revenue—other consists primarily of ad and music serving costs, employee-related and facilities and equipment costs and other costs of ad sales. Ad and music serving costs consist of content streaming, maintaining our internet radio service and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are sold as part of certain of our advertising arrangements.

For the year ended December 31, 2016 compared to 2015, cost of revenue—other increased $21.4 million or 27%, primarily due to an $9.6 million increase in employee-related and facilities and equipment costs driven by an approximate 15% increase in average headcount, a $9.2 million increase in hosting and ad-serving costs driven by an increase in advertising revenue and a $2.4 million increase in costs related to music events that are sold as part of our advertising arrangements.

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 15, 2017.

PANDORA MEDIA, INC.

By: /s/ TIM WESTERGREN
Name: Tim Westergren
Title: *Chief Executive Officer (Principal Executive Officer) and Director*

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Tim Westergren, Michael S. Herring and Stephen Bené and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to act separately and full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or his or her or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ TIM WESTERGREN Tim Westergren	Chief Executive Officer (Principal Executive Officer) and Director	February 15, 2017
/s/ MICHAEL S. HERRING Michael S. Herring	President and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)	February 15, 2017
/s/ ROGER FAXON Roger Faxon	Director	February 15, 2017
/s/ JAMES M. P. FEUILLE James M. P. Feuille	Director	February 15, 2017
/s/ PETER GOTCHER Peter Gotcher	Director	February 15, 2017
/s/ TIMOTHY LEIWEKE Timothy Leiweke	Director	February 15, 2017
/s/ ELIZABETH A. NELSON Elizabeth A. Nelson	Director	February 15, 2017
/s/ MICKIE ROSEN Mickie Rosen	Director	February 15, 2017
/s/ ANTHONY VINCIQUERRA Anthony Vinciquerra	Director	February 15, 2017

pandora®

2018 ANNUAL REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(g) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, $0.0001 par value	The New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definition of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2017 (the last business day of the registrant's most recently completed second quarter), based on the closing price of such stock on The New York Stock Exchange on such date was approximately $1,189 million. This calculation excludes the shares of common stock held by executive officers, directors and stockholders whose ownership exceeds 5% outstanding at June 30, 2017. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

On February 21, 2018 the registrant had 254,884,000 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant’s 2018 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2017, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Definitive Proxy Statement is not deemed to be filed as part of this Annual Report on Form 10-K.

Paid subscribers are defined as the number of distinct users that have current, paid access to our subscription service as of the end of the period. We track paid subscribers because it is a key indicator of the growth of our subscription services.

The below table sets forth our paid subscribers as of December 31, 2016 and 2017.

	As of December 31,	
	2016	2017
	(in millions)	
Paid subscribers	4.39	5.48

ARPU and LPU

ARPU is defined as average monthly revenue per paid subscriber on our subscription services. LPU is defined as average monthly licensing costs per paid subscriber on our subscription services. We believe ARPU to be the central top-line indicator for evaluating the results of our monetization efforts on our subscription services. We track LPU because it is a key measure of our ability to manage costs for our subscription services. The below table sets forth our ARPU and LPU for our subscription services for the quarters ended December 31, 2016 and 2017 and the year ended December 31, 2017.

	Quarter ended December 31,		Year ended December 31,	
	2016	2017	2016	2017
Subscription ARPU	4.73	6.08	N/A	5.34
Subscription LPU	3.12	4.41	N/A	3.62

Subscription ARPU

For the quarter ended December 31, 2017 compared to 2016, the increase in subscription ARPU is primarily due to the increase in subscription revenue outpacing the increase in subscribers due to the fact that Pandora Premium launched in 2017 at a higher price point than Pandora Plus.

Subscription LPU

For the quarter ended December 31, 2017 compared to 2016, the increase in subscription LPU was primarily due to an increase in content acquisition costs associated with Pandora Premium and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. Our results of operations for the year ended December 31, 2015 include operating results of Ticketfly for the two months ended December 31, 2015. Our results of operations for the year ended December 31, 2017 include operating results of Ticketfly for the period ended September 1, 2017. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Year ended December 31,		
	2015	2016	2017
Revenue			
Advertising	80 %	77 %	73 %
Subscription and other	19	16	22
Ticketing service	1	6	5
Total revenue	100	100	100
Cost of revenue			
Cost of revenue—Content acquisition costs	52	53	55
Cost of revenue—Other (1)	7	7	8
Cost of revenue—Ticketing service (1)	1	4	3
Total cost of revenue	60	65	66
Gross profit	40	35	34
Operating expenses			
Product development (1)	7	10	11
Sales and marketing (1)	34	35	34
General and administrative (1)	13	13	13
Goodwill impairment	—	—	9
Contract termination fees	—	—	2
Total operating expenses	55	58	68
Loss from operations	(15)	(23)	(34)
Interest expense	—	(2)	(2)
Other income, net	—	—	—
Total other expense, net	—	(2)	(2)
Loss before (provision for) benefit from income taxes	(15)	(25)	(35)
(Provision for) benefit from income taxes	—	—	—
Net loss	(15)%	(25)%	(35)%
Net loss available to common stockholders	(15)%	(25)%	(38)%
(1) Includes stock-based compensation as follows:			
Cost of revenue—Other	0.5%	0.4%	0.2%
Cost of revenue—Ticketing service	—	—	—
Product development	2.0	2.2	2.3
Sales and marketing	4.5	4.2	3.8
General and administrative	2.5	3.1	2.4

Note: Amounts may not recalculate due to rounding

Revenue

	Year ended December 31,			Year ended December 31,		
	2015	2016	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Revenue						
Advertising	$ 933,305	$ 1,072,490	$ 139,185	$ 1,072,490	$ 1,074,927	$ 2,437
Subscription and other	220,571	225,786	5,215	225,786	315,853	90,067
Ticketing service	10,167	86,550	76,383	86,550	76,032	(10,518)
Total revenue	$ 1,164,043	$ 1,384,826	$ 220,783	$ 1,384,826	$ 1,466,812	$ 81,986

Advertising revenue

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-through rates. For the years ended December 31, 2015, 2016 and 2017, advertising revenue accounted for 80%, 77% and 73%, of our total revenue, respectively. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the year ended December 31, 2017 compared to 2016, advertising revenue increased $2.4 million or 0.2% due to the average price per ad and the number of ads sold remaining relatively flat compared to the prior year.

For the year ended December 31, 2016 compared to 2015, advertising revenue increased by $139.2 million or 15%, primarily due to an increase in the average price per ad sold.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of monthly or annual subscriptions to Pandora Plus and Pandora Premium. Pandora Plus is a paid, ad-free version of the Pandora service that includes replays, additional skipping, offline listening, higher quality audio on supported devices and longer timeout-free listening. Pandora Premium is a paid, ad-free version of the Pandora service that also offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generate playlists based on their listening activity. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the years ended December 31, 2015, 2016 and 2017, subscription and other revenue accounted for 19%, 16% and 22% of our total revenue, respectively.

For the year ended December 31, 2017 compared to 2016, subscription revenue increased $90.1 million or 40%, primarily due to an increase in the number of subscribers and an increase in the average price per paid subscriber due to the launch and growth of Pandora Premium.

For the year ended December 31, 2016 compared to 2015, subscription and other revenue increased by $5.2 million or 2%, primarily due to an increase in the number of subscribers.

Ticketing service

Ticketing service revenue was generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. Ticketfly sold tickets to fans for events on behalf of clients and charged either a fee per ticket or a percentage of the total convenience charge and order processing fee for its services at the time the ticket for an event was sold. Ticketing service revenue was recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acted as the agent in these transactions. For the years ended December 31, 2015, 2016 and 2017, ticketing service revenue accounted for approximately 1%, 6% and 5% of our total revenue, respectively. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Ticketing service revenue is included in our Consolidated Statements of Operations for the period from the acquisition date of October 31, 2015 to the disposition date of September 1, 2017. Refer to Note 5 "Dispositions" in the Notes to Consolidated Financial Statements for further details on the Ticketfly disposition.

For the year ended December 31, 2017 compared to 2016, ticketing service revenue decreased $10.5 million or 12%,

primarily due to a decrease in the number of tickets sold, excluding box office sales, as a result of the sale of Ticketfly on September 1, 2017.

Deferred revenue

Our deferred revenue consists primarily of prepaid but unrecognized subscription revenue and, to a lesser extent, advertising fees received or billed in advance of the delivery or completion of the delivery of services. Deferred revenue is recognized as revenue when the services are provided and all other revenue recognition criteria have been met.

In addition, subscription revenue derived from sales through certain mobile device app stores may be subject to refund or cancellation terms which may affect the timing or amount of the subscription revenue recognition. When refund rights exist, we recognize revenue when services have been provided and the rights lapse or when we have developed sufficient transaction history to estimate a return reserve.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue—ticketing. Our operating expenses consist of product development, sales and marketing, general and administrative costs, goodwill impairment and contract termination fees. Cost of revenue—content acquisition costs are the largest component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses.

Cost of revenue—Content acquisition costs

	Year ended December 31,			Year ended December 31,		
	2015	2016	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Content acquisition costs	$ 610,362	$ 734,353	$ 123,991	$ 734,353	$ 804,032	$ 69,679

Cost of revenue-content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners. In the year ended December 31, 2016, we obtained the rights to stream the majority of sound recordings on our service through statutory licenses, with the costs for such licenses determined according to the per-play rates set by the CRB. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

During the year ended December 31, 2017, the majority of our content acquisition costs were calculated using negotiated rates in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount.

For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings.

For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. §115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the year ended December 31, 2017 compared to 2016, content acquisition costs increased $69.7 million or 9%, and total content acquisition costs as a percentage of total revenue increased from 53% to 55%. As we entered into direct license agreements with major and independent labels, distributors, PROs and publishers, we experienced rate increases and minimum guarantee accruals as compared to the statutory rates used to calculate our content acquisition costs for the majority of the year ended December 31, 2016. These rates particularly impacted our subscription services. As we launched Pandora Premium and experienced growth in our subscription services in 2017, this resulted in a corresponding increase in content acquisition costs as dictated by these direct license agreements.

For the year ended December 31, 2016 compared to 2015, content acquisition costs increased by $124.0 million or 20%, and total content acquisition costs as a percentage of total revenue increased from 52% to 53%, primarily due to rate increases and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers that went into effect beginning September 2016. The increase was partially offset by one-time cumulative charges in the year ended December 31, 2015 of $57.9 million for the pre-1972 sound recordings settlement and $23.9 million as a result of management's decision to forgo the application of the RMLC publisher royalty rate from June 2013 to September 2015.

Cost of Revenue—Other

	Year ended December 31,			Year ended December 31,		
	2015	2016	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Other	$ 79,972	$ 102,717	$ 22,745	$ 102,717	$ 112,638	$ 9,921

Cost of revenue—other consists primarily of ad and music serving costs, employee-related costs, facilities and equipment costs, other costs of ad sales and amortization expense related to acquired intangible assets and internal-use software. In the year ended December 31, 2017 we reallocated headcount from cost of revenue—other to other financial statement line items due to a reorganization of the company as a result of a reallocation of resources. Ad and music serving costs consist of content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are included as part of certain of our advertising arrangements.

For the year ended December 31, 2017 compared to 2016, cost of revenue—other increased $9.9 million or 10%, primarily due to an $11.2 million increase in amortization expense of internal-use software and acquired intangible assets related to the launch of Pandora Premium, a $5.0 million increase in other cost of ad sales and a $4.8 million increase in hosting and ad serving costs driven by an increase in the cost of ad sales. The increase is offset by an $11.6 million decrease in employee-related costs driven by a decrease in average headcount related to a reorganization of the company as a result of a reallocation of resources and a reduction in force in the first quarter of 2017.

For the year ended December 31, 2016 compared to 2015, cost of revenue—other increased by $22.7 million or 28%, primarily due to a $6.0 million increase in employee-related expenses and a $3.3 million increase in facilities and equipment costs driven by an increase in average headcount, a $7.4 million increase in hosting and ad-serving costs and a $3.0 million increase in cost of ad sales driven by an increase in the number of ads sold, a $1.7 million increase in amortization expense of internal-use software and a $1.1 million increase in costs related to music events that are sold as part of our advertising arrangements.

Cost of revenue—ticketing service

	Year ended December 31,			Year ended December 31,		
	2015	2016	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Ticketing service	$ 7,121	$ 59,280	$ 52,159	$ 59,280	$ 50,397	$ (8,883)

Cost of revenue—ticketing service consists primarily of ticketing revenue share costs, hosting costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs are related to revenue share costs which consist of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense is related to amortization of developed technology acquired in connection with the Ticketfly acquisition on October 1, 2015. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Cost of revenue—ticketing service is included in our Consolidated Statements of Operations for the period from the acquisition date of October 31, 2015 to the disposition date of

Pandora Media, Inc.
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year ended December 31,		
	2015	2016	2017
Revenue			
Advertising	$ 933,305	$ 1,072,490	$ 1,074,927
Subscription and other	220,571	225,786	315,853
Ticketing service	10,167	86,550	76,032
Total revenue	1,164,043	1,384,826	1,466,812
Cost of revenue			
Cost of revenue—Content acquisition costs	610,362	734,353	804,032
Cost of revenue—Other	79,972	102,717	112,638
Cost of revenue—Ticketing service	7,121	59,280	50,397
Total cost of revenue	697,455	896,350	967,067
Gross profit	466,588	488,476	499,745
Operating expenses			
Product development	84,135	140,707	154,325
Sales and marketing	397,842	490,364	492,542
General and administrative	154,602	176,164	190,711
Goodwill impairment	—	—	131,997
Contract termination fees	—	—	23,044
Total operating expenses	636,579	807,235	992,619
Loss from operations	(169,991)	(318,759)	(492,874)
Interest expense	(1,976)	(26,144)	(29,335)
Other income, net	756	1,697	3,024
Total other expense, net	(1,220)	(24,447)	(26,311)
Loss before benefit from income taxes	(171,211)	(343,206)	(519,185)
Benefit from income taxes	1,550	228	790
Net loss	$ (169,661)	$ (342,978)	$ (518,395)
Net loss available to common stockholders	$ (169,661)	$ (342,978)	$ (558,561)
Basic and diluted net loss per common share	$ (0.79)	$ (1.49)	$ (2.29)
Weighted-average basic and diluted common shares	213,790	230,693	243,637

The accompanying notes are an integral part of the consolidated financial statements.

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 26, 2018.

PANDORA MEDIA, INC.

By: /s/ ROGER LYNCH

Name: Roger Lynch

Title: *Chief Executive Officer (Principal Executive Officer) and Director*

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Roger Lynch, Naveen Chopra and Stephen Bené and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to act separately and full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or his or her or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ROGER LYNCH Roger Lynch	President, Chief Executive Officer (Principal Executive Officer) and Director	February 26, 2018
/s/ NAVEEN CHOPRA Naveen Chopra	Chief Financial Officer (Principal Financial Officer)	February 26, 2018
/s/ KAREN WALKER Karen Walker	Chief Accounting Officer (Principal Accounting Officer)	February 26, 2018
/s/ GREGORY B. MAFFEI Gregory B. Maffei	Director	February 26, 2018
/s/ ROGER FAXON Roger Faxon	Director	February 26, 2018
David J. Frear	Director	February 26, 2018
Jason Hirschhorn	Director	February 26, 2018
/s/ TIMOTHY LEIWEKE Timothy Leiweke	Director	February 26, 2018
/s/ MICHAEL M. LYNTON Michael M. Lynton	Director	February 26, 2018
/s/ JAMES E. MEYER James E. Meyer	Director	February 26, 2018
/s/ MICKIE ROSEN Mickie Rosen	Director	February 26, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of registrant's common stock outstanding as of May 4, 2017 was: 240,358,500.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Pandora Media, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

	As of December 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 199,944	$ 170,881
Short-term investments	37,109	32,123
Accounts receivable, net of allowance of $3,633 at December 31, 2016 and $3,912 at March 31, 2017	309,267	262,934
Prepaid content acquisition costs	46,310	48,542
Prepaid expenses and other current assets	33,191	29,422
Total current assets	625,821	543,902
Long-term investments	6,252	—
Property and equipment, net	124,088	128,815
Goodwill	306,691	306,421
Intangible assets, net	90,425	85,289
Other long-term assets	31,533	33,721
Total assets	$ 1,184,810	$ 1,098,148
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 15,224	$ 21,152
Accrued liabilities	35,465	33,878
Accrued content acquisition costs	93,723	89,972
Accrued compensation	60,353	43,871
Deferred revenue	28,359	32,355
Other current liabilities	20,993	32,848
Total current liabilities	254,117	254,076
Long-term debt, net	342,247	347,223
Other long-term liabilities	34,187	33,946
Total liabilities	630,551	635,245
Stockholders' equity		
Common stock: 235,162,757 shares issued and outstanding at December 31, 2016 and 240,334,808 at March 31, 2017	24	24
Additional paid-in capital	1,264,693	1,306,532
Accumulated deficit	(709,636)	(843,057)
Accumulated other comprehensive loss	(822)	(596)
Total stockholders' equity	554,259	462,903
Total liabilities and stockholders' equity	$ 1,184,810	$ 1,098,148

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended March 31,	
	2016	2017
Revenue		
Advertising	$ 220,308	$ 223,308
Subscription and other	54,732	64,878
Ticketing service	22,265	27,818
Total revenue	297,305	316,004
Cost of revenue		
Cost of revenue—Content acquisition costs	171,264	187,420
Cost of revenue—Other	21,195	25,532
Cost of revenue—Ticketing service	14,646	18,618
Total cost of revenue	207,105	231,570
Gross profit	90,200	84,434
Operating expenses		
Product development	35,611	39,588
Sales and marketing	117,433	125,102
General and administrative	46,524	44,525
Total operating expenses	199,568	209,215
Loss from operations	(109,368)	(124,781)
Interest expense	(6,175)	(7,381)
Other income, net	862	229
Total other expense, net	(5,313)	(7,152)
Loss before provision for income taxes	(114,681)	(131,933)
Provision for income taxes	(421)	(334)
Net loss	$ (115,102)	$ (132,267)
Weighted-average common shares outstanding used in computing basic and diluted net loss per share	226,659	237,515
Net loss per share, basic and diluted	$ (0.51)	$ (0.56)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended March 31,	
	2016	**2017**
Net loss	$ (115,102)	$ (132,267)
Change in foreign currency translation adjustment	(233)	191
Change in net unrealized loss on marketable securities	305	35
Other comprehensive income	72	226
Total comprehensive loss	$ (115,030)	$ (132,041)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

10. Segment Data and Revenue by Geographic Area

Segment Data

Our two operating segments, which are the same as our two reportable segments, are as follows:

Pandora—Internet radio and on-demand music services

Pandora is the world's most powerful music discovery platform, offering a personalized experience for each of our listeners wherever and whenever they want to listen to music—whether through earbuds, car speakers or home audio/video equipment. Pandora is available as an ad-supported service, a radio subscription service called Pandora Plus and an on-demand subscription service called Pandora Premium. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on our ad-supported service on these devices. We offer both local and national advertisers the opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue from subscriptions to Pandora Plus and Pandora Premium.

Ticketing service

We operate our ticketing service through our subsidiary Ticketfly, a leading live events technology company that provides ticketing and marketing software and services for clients, which are venues and event promoters, across North America. Ticketfly's ticketing, digital marketing and analytics software helps promoters book talent, sell tickets and drive in-venue revenue, while Ticketfly's consumer tools help fans find and purchase tickets to events. Tickets are primarily sold through the Ticketfly platform but are also sold through other channels such as box offices.

The measurement basis of segment profit or loss is gross profit, as operating expenses and working capital are all managed on an aggregate basis. Total segment assets have not been presented as segment assets are not reported to, used by management to allocate resources to or used to assess performance of the segments.

The following table provides the financial performance of our reportable segments, including a reconciliation of gross profit from segment operations to gross profit from total operations:

	Three months ended March 31,					
	2016			2017		
	Pandora	Ticketfly	Total	Pandora	Ticketfly	Total
	(in thousands)			(in thousands)		
Revenues	$ 275,040	$ 22,265	$ 297,305	$ 288,186	$ 27,818	$ 316,004
Cost of revenues	192,459	14,646	207,105	212,952	18,618	231,570
Gross profit	$ 82,581	$ 7,619	$ 90,200	$ 75,234	$ 9,200	$ 84,434
Operating and other expenses			(205,302)			(216,701)
Net loss			$ (115,102)			$ (132,267)

The following table provides depreciation and amortization costs included in costs of revenues by segment included in the consolidated statements of operations:

	Three months ended March 31,					
	2016			2017		
	Pandora	Ticketfly	Total	Pandora	Ticketfly	Total
	(in thousands)			(in thousands)		

Depreciation and amortization	$ 2,146	$ 1,433	$ 3,579	$ 3,347	$ 1,430	$ 4,777

Revenue by Geographic Area

The following table sets forth revenue by geographic area:

Advertising-based service

Advertising Revenue per Thousand Listener Hours ("ad RPMs")

We track ad RPMs for our non-subscription, ad-supported service because it is a key indicator of our ability to monetize advertising inventory created by our listener hours. We focus on ad RPMs across all of our delivery platforms. We believe ad RPMs to be the central top-line indicator for evaluating the results of our monetization efforts. Ad RPMs are calculated by dividing advertising revenue by the number of thousands of listener hours of our advertising-based service.

Advertising LPMs

We track advertising LPMs for our non-subscription, ad-supported service across all delivery platforms. Prior to September 15, 2016, advertising LPMs were relatively fixed content acquisition costs with scheduled annual rate adjustments, per thousands of listener hours. Subsequent to September 15, 2016, LPMs are our content acquisition costs as calculated either under the rates set by our license agreements with record labels, PROs and music publishers or under the Web IV rates if we have not entered into a license agreement with the copyright owner of a particular sound recording, in each case per thousands of listener hours.

Period-to-period results should not be regarded as precise nor can they be relied upon as indicative of results for future periods. In addition, as our business matures and in response to technological evolutions, we anticipate that the relevant indicators we monitor for evaluating our business may change.

The table below sets forth our RPMs and LPMs for our ad-supported service for the three months ended March 31, 2016 and 2017.

	Three months ended March 31,			
	2016		2017	
	RPM*	LPM	RPM*	LPM
Advertising	$ 45.47	$ 30.48	$ 50.87	$ 33.44

*The calculation of RPMs does not include revenue generated by Ticketfly or Next Big Sound.

Advertising RPMs

For the three months ended March 31, 2017 compared to 2016, the increase in ad RPMs was primarily due to a decrease in advertising listener hours as a result of hours control mechanisms.

Advertising LPMs

For the three months ended March 31, 2017 compared to 2016, the increase in ad LPMs was primarily due to a decrease in advertising listener hours as a result of hours control mechanisms.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three months ended March 31,	
	2016	2017
Revenue		
Advertising	74 %	71 %
Subscription and other	18	21
Ticketing service	7	9
Total revenue	100	100
Cost of revenue		
Cost of revenue — Content acquisition costs	58	59
Cost of revenue — Other (1)	7	8
Cost of revenue — Ticketing service (1)	5	6
Total cost of revenue	70	73
Gross profit	30	27
Operating expenses		
Product development (1)	12	13
Sales and marketing (1)	39	40
General and administrative (1)	16	14
Total operating expenses	67	66
Loss from operations	(37)	(39)
Interest expense	(2)	(2)
Other income, net	—	—
Total other expense, net	(2)	(2)
Loss before provision for income taxes	(39)	(42)
Provision for income taxes	—	—
Net loss	(39)%	(42)%

(1) Includes stock-based compensation as follows:		
Cost of revenue - Other	0.5%	0.3%
Cost of revenue - Ticketing service	—	—
Product development	2.9	2.5
Sales and marketing	4.6	4.3
General and administrative	5.0	2.3

Note: Amounts may not recalculate due to rounding

Revenue

	Three months ended March 31,		
	2016	2017	$ Change
	(in thousands)		
Revenue			
Advertising	$ 220,308	$ 223,308	$ 3,000
Subscription and other	54,732	64,878	10,146
Ticketing service	22,265	27,818	5,553
Total revenue	$ 297,305	$ 316,004	$ 18,699

Advertising revenue

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-through rates. We also have arrangements with advertising agencies under which these agencies sell advertising inventory on our service directly to advertisers. We report revenue under these arrangements net of amounts due to agencies. For the three months ended March 31, 2016 and 2017, advertising revenue accounted for 74% and 71% of our total revenue. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the three months ended March 31, 2017 compared to 2016, advertising revenue increased $3.0 million or 1%, primarily due to an approximate 15% increase in the number of ads sold, offset by an approximate 15% decrease in the average price per ad.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of monthly or annual paid subscriptions to Pandora Plus and Pandora Premium. Pandora Plus is a paid, ad-free version of the Pandora service that includes replays, additional skipping, offline listening, higher quality audio on supported devices and longer timeout-free listening. Pandora Premium is a paid, ad-free version of the Pandora service that offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generates playlists based on their listening activity. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the three months ended March 31, 2016 and 2017, subscription and other revenue accounted for 18% and 21% of our total revenue.

For the three months ended March 31, 2017 compared to 2016, subscription and other revenue increased $10.1 million or 19%, primarily due to an approximate 20% increase in the number of subscribers.

Ticketing service

Ticketing service revenue is generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket, which generally increases as the face value of the ticket increases, or a percentage of the total convenience charge and order processing fee, for its services at the time the ticket for an event is sold. Ticketing service revenue is recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. For the three months ended March 31, 2016 and 2017, ticketing service revenue accounted for 7% and 9% of our total revenue.

For the three months ended March 31, 2017 compared to 2016, ticketing service revenue increased $5.6 million or 25%, primarily due to an approximate 25% increase in the number of tickets sold, excluding box office sales.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue— ticketing. Our operating expenses consist of product development, sales and marketing and general and administrative costs. Cost of revenue—content acquisition costs are the most significant component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses. We expect to continue to hire additional employees in order to support our anticipated growth and our product development initiatives. In any particular period, the timing of additional hires could materially affect our cost of revenue and operating expenses, both in absolute dollars and as a percentage of revenue. We anticipate that our costs and expenses will increase in the future.

Cost of revenue—Content acquisition costs

	Three months ended March 31,		
	2016	2017	$ Change
	(in thousands)		
Cost of revenue—Content acquisition costs	$ 171,264	$ 187,420	$ 16,156

Cost of revenue—content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners, and licensing fees paid for the streaming of musical works embedded in sound recordings.

During the three months ended March 31, 2016, we obtained the rights to stream the majority of sound recordings on our service through statutory licenses, with the costs for such licenses determined according to the per play rates set by the Copyright Royalty Board. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

During the three months ended March 31, 2017, the majority of our content acquisition costs were calculated using mainly negotiated rates documented in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount, all generally subject to certain discounts. For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings. For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. § 115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the three months ended March 31, 2017 compared to 2016, content acquisition costs increased $16.2 million or 9% and content acquisition costs as a percentage of total revenue increased from 58% to 59%, primarily due to an increase in content acquisition costs pursuant to our direct license agreements for sound recordings with major and independent labels, distributors, PROs and publishers.

Cost of revenue—Other

	Three months ended March 31,		
	2016	2017	$ Change
	(in thousands)		
Cost of revenue—Other	$ 21,195	$ 25,532	$ 4,337

Cost of revenue—other consists primarily of ad and music serving costs, employee-related and facilities and equipment costs, other costs of ad sales and amortization of internal-use software. In the three months ended March 31, 2017 we reallocated headcount from cost of revenue—other to product development, sales and marketing and general and administrative due to a reorganization of the company. Ad and music serving costs consist of content streaming, maintaining our internet radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are sold as part of certain of our advertising arrangements.

For the three months ended March 31, 2017 compared to 2016, cost of revenue—other increased $4.3 million or 20%, primarily due to a $5.2 million increase in ad and music serving costs driven by an increase in revenue, a $0.9 million increase in costs related to music events and a $0.9 million increase in amortization of internal-use software, offset by a $2.5 million decrease in employee-related and facilities and equipment costs driven by an approximate 35% decrease in average headcount related to the reorganization of the company and the reduction in force.

Cost of revenue—Ticketing service

	Three months ended March 31,		
	2016	2017	$ Change
	(in thousands)		
Cost of revenue—Ticketing service	$ 14,646	$ 18,618	$ 3,972

Cost of revenue—ticketing service consists primarily of ticketing revenue share costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs are related to revenue share costs, which consist of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense is related to amortization of developed technology acquired in connection with the Ticketfly acquisition.

For the three months ended March 31, 2017 compared to 2016, cost of revenue—ticketing service increased $4.0 million or 27%, primarily due to a $2.7 million increase in revenue share costs and an increase of $1.3 million in credit card fees and other cost of revenue driven by an increase in ticketing service revenue.

Gross profit

	Three months ended March 31,		
	2016	2017	$ Change
	(in thousands)		
Gross profit			
Total revenue	$ 297,305	$ 316,004	$ 18,699
Total cost of revenue	207,105	231,570	24,465
Gross profit	$ 90,200	$ 84,434	$ (5,766)
Gross margin	30%	27%	

For the three months ended March 31, 2017 compared to 2016, gross profit decreased by $5.8 million or 6% and gross margin decreased from 30% to 27% as the growth in content acquisition costs outpaced the growth in revenue, primarily due to an increase in content acquisition costs pursuant to our direct license agreements for sound recordings with major and independent labels, distributors, PROs and publishers.

Product development

	Three months ended March 31,		
	2016	2017	$ Change
	(in thousands)		
Product development	$ 35,611	$ 39,588	$ 3,977

Product development consists primarily of employee-related and facilities and equipment costs, including salaries and benefits related to employees in software engineering, music analysis and product management departments, information technology, costs associated with supporting consumer connected-device manufacturers in implementing our service in their products and amortization expense related to acquired intangible assets. We incur product development expenses primarily for improvements to our website and the Pandora app, development of new services and enhancement of existing services, development of new advertising products and development and enhancement of our personalized playlisting system. We have generally expensed product development as incurred. These amounts are offset by costs that we capitalize to develop software for internal use. Certain website development and internal use software development costs are capitalized when specific criteria are met. In such cases, the capitalized amounts are amortized over the useful life of the related application once the application is placed in service.

For the three months ended March 31, 2017 compared to 2016, product development expenses increased by $4.0 million or 11%, primarily due to a $3.5 million increase in employee-related and facilities and equipment costs driven by an approximate 15% increase in average headcount.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Pandora Media, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANDORA MEDIA, INC.

Date: May 8, 2017

By: /s/ Naveen Chopra
Naveen Chopra
Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of registrant's common stock outstanding as of July 27, 2017 was: 242,621,114.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Pandora Media, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts) (unaudited)

	As of December 31, 2016	As of June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 199,944	$ 209,581
Short-term investments	37,109	18,056
Accounts receivable, net of allowance of $3,633 at December 31, 2016 and $5,708 at June 30, 2017	309,267	288,347
Prepaid content acquisition costs	46,310	39,869
Prepaid expenses and other current assets	33,191	18,188
Assets held for sale	—	227,844
Total current assets	625,821	801,885
Long-term investments	6,252	—
Property and equipment, net	124,088	120,792
Goodwill	306,691	71,243
Intangible assets, net	90,425	23,235
Other long-term assets	31,533	13,490
Total assets	$ 1,184,810	$ 1,030,645
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities		
Accounts payable	$ 15,224	$ 12,780
Accrued liabilities	35,465	43,601
Accrued content acquisition costs	93,723	88,260
Accrued compensation	60,353	45,580
Deferred revenue	28,359	32,475
Other current liabilities	20,993	—
Liabilities held for sale	—	43,059
Total current liabilities	254,117	265,755
Long-term debt, net	342,247	352,157
Other long-term liabilities	34,187	25,701
Total liabilities	630,551	643,613
Redeemable convertible preferred stock: 172,500 shares issued and outstanding at June 30, 2017	—	173,095
Stockholders' equity		
Common stock: 235,162,757 shares issued and outstanding at December 31, 2016 and 242,412,275 at June 30, 2017	24	24
Additional paid-in capital	1,264,693	1,347,285
Accumulated deficit	(709,636)	(1,132,721)
Accumulated other comprehensive loss	(822)	(651)
Total stockholders' equity	554,259	213,937
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,184,810	$ 1,030,645

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2017	2016	2017
Revenue				
Advertising	$ 265,126	$ 278,204	$ 485,434	$ 501,512
Subscription and other	55,125	68,900	109,857	133,778
Ticketing service	22,771	29,730	45,036	57,548
Total revenue	343,022	376,834	640,327	692,838
Cost of revenue				
Cost of revenue—Content acquisition costs	176,633	195,875	347,897	383,295
Cost of revenue—Other	25,106	27,440	46,301	52,972
Cost of revenue—Ticketing service	15,259	20,510	29,905	39,128
Total cost of revenue	216,998	243,825	424,103	475,395
Gross profit	126,024	133,009	216,224	217,443
Operating expenses				
Product development	33,560	41,233	69,171	80,821
Sales and marketing	123,589	145,891	241,022	270,993
General and administrative	40,760	57,954	87,284	102,479
Goodwill impairment	—	131,997	—	131,997
Contract termination fees	—	23,467	—	23,467
Total operating expenses	197,909	400,542	397,477	609,757
Loss from operations	(71,885)	(267,533)	(181,253)	(392,314)
Interest expense	(6,247)	(7,404)	(12,422)	(14,785)
Other income, net	255	78	1,117	307
Total other expense, net	(5,992)	(7,326)	(11,305)	(14,478)
Loss before benefit from (provision for) income taxes	(77,877)	(274,859)	(192,558)	(406,792)
Benefit from (provision for) income taxes	1,544	(277)	1,123	(611)
Net loss	(76,333)	(275,136)	(191,435)	(407,403)
Net loss available to common stockholders	$ (76,333)	$ (289,664)	$ (191,435)	$ (421,931)
Net loss per common share, basic and diluted	$ (0.33)	$ (1.20)	$ (0.84)	$ (1.76)
Weighted-average basic and diluted common shares	229,745	241,320	228,202	239,428

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2017	2016	2017
Net loss	$ (76,333)	$ (275,136)	$ (191,435)	$ (407,403)
Change in foreign currency translation adjustment	(55)	(62)	(288)	129
Change in net unrealized loss on marketable securities	88	7	393	42
Other comprehensive income (loss)	33	(55)	105	171
Total comprehensive loss	$ (76,300)	$ (275,191)	$ (191,330)	$ (407,232)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

12. Segment Data and Revenue by Geographic Area

Segment Data

Our two operating segments, which are the same as our two reportable segments, are as follows:

Pandora—Internet radio and on-demand music services

Pandora is the world's most powerful music discovery platform, offering a personalized experience for each of our listeners wherever and whenever they want to listen to music—whether through earbuds, car speakers or home audio/video equipment. Pandora is available as an ad-supported service, a radio subscription service called Pandora Plus and an on-demand subscription service called Pandora Premium. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on our ad-supported service on these devices. We offer both local and national advertisers the opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue from subscriptions to Pandora Plus and Pandora Premium.

Ticketing service

We operate our ticketing service through our subsidiary Ticketfly, a leading live events technology company that provides ticketing and marketing software and services for clients, which are venues and event promoters, across North America. Ticketfly's ticketing, digital marketing and analytics software helps promoters book talent, sell tickets and drive in-venue revenue, while Ticketfly's consumer tools help fans find and purchase tickets to events. Tickets are primarily sold through the Ticketfly platform but are also sold through other channels such as box offices.

The measurement basis of segment profit or loss is gross profit, as operating expenses and working capital are all managed on an aggregate basis. Total segment assets have not been presented as segment assets are not reported to, used by management to allocate resources to or used to assess performance of the segments.

In June 2017, we entered into an agreement to sell Ticketfly. Refer to Note 6 "Assets Held for Sale" in the Notes to Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

The following table provides the financial performance of our reportable segments, including a reconciliation of gross profit from segment operations to gross profit from total operations:

	Three months ended June 30,					
	2016			2017		
	Pandora	Ticketfly	Total	Pandora	Ticketfly	Total
	(in thousands)			(in thousands)		
Revenues	$ 320,251	$ 22,771	$ 343,022	$ 347,104	$ 29,730	$ 376,834
Cost of revenues	201,739	15,259	216,998	223,315	20,510	243,825
Gross profit	$ 118,512	$ 7,512	$ 126,024	$ 123,789	$ 9,220	$ 133,009
Operating and other expenses			(202,357)			(408,145)
Net loss			$ (76,333)			$ (275,136)

	Six months ended June 30,					
	2016			2017		
	Pandora	Ticketfly	Total	Pandora	Ticketfly	Total
	(in thousands)			(in thousands)		
Revenues	$ 595,291	$ 45,036	$ 640,327	$ 635,290	$ 57,548	$ 692,838

Cost of revenues	394,198	29,905	424,103	436,267	39,128	475,395
Gross profit	$ 201,093	$ 15,131	$ 216,224	$ 199,023	$ 18,420	$ 217,443
Operating and other expenses			(407,659)			(624,846)
Net loss			$ (191,435)			$ (407,403)

Pandora Media, Inc.
Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

The following table provides depreciation and amortization costs included in costs of revenues by segment included in the consolidated statements of operations. We did not record depreciation and amortization expense of long-term assets related to the Ticketfly segment in June 2017, subsequent to the date that the related assets qualified as held for sale.

	Three months ended June 30,					
	2016			2017		
	Pandora	Ticketfly	Total	Pandora	Ticketfly	Total
	(in thousands)			(in thousands)		
Depreciation and amortization	$ 2,432	$ 1,435	$ 3,867	$ 5,763	$ 951	$ 6,714

	Six months ended June 30,					
	2016			2017		
	Pandora	Ticketfly	Total	Pandora	Ticketfly	Total
	(in thousands)			(in thousands)		
Depreciation and amortization	$ 4,578	$ 2,868	$ 7,446	$ 9,110	$ 2,381	$ 11,491

Revenue by Geographic Area

The following table sets forth revenue by geographic area:

	Three months ended June 30,		Six months ended June 30,	
	2016	2017	2016	2017
	(in thousands)		(in thousands)	
Revenue by geographic area				
United States	$ 337,363	$ 372,807	$ 630,623	$ 684,102
International	5,659	4,027	9,704	8,736
Total revenue	$ 343,022	$ 376,834	$ 640,327	$ 692,838

No individual foreign country represented a material portion of our consolidated revenue during the three and six months ended June 30, 2016 and 2017.

13. Restructuring Charges

Reduction in Force

On January 12, 2017, we announced a reduction in force plan affecting approximately 7% of our U.S. employee base, excluding Ticketfly. In the six months ended June 30, 2017, we incurred approximately $6.0 million of cash expenditures, substantially all of which are related to employee severance and benefits costs. In the six months ended June 30, 2017, total reduction in force expenses were $5.6 million, which was lower than cash reduction in force costs due to a credit related to non-cash stock-based compensation expense reversals for unvested equity awards. The reduction in force plan was completed and all amounts were paid in the six months ended June 30, 2017.

Australia and New Zealand Exit Costs

On June 27, 2017, we announced a plan to discontinue business activities in Australia and New Zealand. The related restructuring charges in the three months ended June 30, 2017 relate primarily to a reduction of headcount of approximately 50 employees, which resulted in employee severance and benefits costs, less a credit related to non-cash stock-based compensation

servers within the trailing 30 days to the end of the final calendar month of the period. The number of active users may overstate the number of unique individuals who actively use our service within a month as one individual may register for, and use, multiple accounts. We include active users who only request non-radio content offerings in the definition of active users.

The table below sets forth our total active users as of June 30, 2016 and 2017.

	As of June 30,	
	2016	2017
	(in millions)	
Active users—all services	78.1	76.0

Advertising-based service

Advertising Revenue per Thousand Listener Hours ("ad RPMs")

We track ad RPMs for our non-subscription, ad-supported service because it is a key indicator of our ability to monetize advertising inventory created by our listener hours. We focus on ad RPMs across all of our delivery platforms. We believe ad RPMs to be the central top-line indicator for evaluating the results of our monetization efforts. Ad RPMs are calculated by dividing advertising revenue by the number of thousands of listener hours of our advertising-based service.

Advertising Content Acquisition Costs per Thousand Listener Hours ("ad LPMs")

We track ad LPMs for our non-subscription, ad-supported service across all delivery platforms. Prior to September 15, 2016, ad LPMs were relatively fixed content acquisition costs with scheduled annual rate adjustments, per thousands of listener hours. Subsequent to September 15, 2016, LPMs are our content acquisition costs as calculated either under the rates set by our license agreements with record labels, PROs and music publishers or under the Web IV rates if we have not entered into a license agreement with the copyright owner of a particular sound recording, in each case per thousands of listener hours.

Period-to-period results should not be regarded as precise nor can they be relied upon as indicative of results for future periods. In addition, as our business matures and in response to technological evolutions, we anticipate that the relevant indicators we monitor for evaluating our business may change.

The table below sets forth our RPMs and LPMs for our ad-supported service for the three and six months ended June 30, 2016 and 2017.

	Three months ended June 30,		Six months ended June 30,	
	2016	2017	2016	2017
Advertising RPMs	$ 53.34	$ 66.15	$ 49.46	$ 58.34
Advertising LPMs	$ 30.65	$ 35.84	$ 30.56	$ 34.61

*The calculation of RPMs does not include revenue generated by Ticketfly or Next Big Sound.

Advertising RPMs

For the three and six months ended June 30, 2017 compared to 2016, the increase in ad RPMs was primarily due to a decrease in advertising listener hours as a result of hours control mechanisms and an increase in the number of ads sold per hour.

Advertising LPMs

For the three and six months ended June 30, 2017 compared to 2016, the increase in ad LPMs was primarily due to rate increases related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs in the three months ended June 30, 2016.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three months ended June 30,		Six months ended June 30,	
	2016	2017	2016	2017
Revenue				
Advertising	77 %	74 %	76 %	72 %
Subscription and other	16	18	17	19
Ticketing service	7	8	7	8
Total revenue	100	100	100	100
Cost of revenue				
Cost of revenue — Content acquisition costs	51	52	54	55
Cost of revenue — Other (1)	7	7	7	8
Cost of revenue — Ticketing service (1)	4	5	5	6
Total cost of revenue	63	65	66	69
Gross profit	37	35	34	31
Operating expenses				
Product development (1)	10	11	11	12
Sales and marketing (1)	36	39	38	39
General and administrative (1)	12	15	14	15
Goodwill impairment	—	35	—	19
Contract termination fees	—	6	—	3
Total operating expenses	58	106	62	88
Loss from operations	(21)	(71)	(28)	(57)
Interest expense	(2)	(2)	(2)	(2)
Other income, net	—	—	—	—
Total other expense, net	(2)	(2)	(2)	(2)
Loss before provision for (benefit from) income taxes	(23)	(73)	(30)	(59)
Provision for (benefit from) income taxes	—	—	—	—
Net loss	(22)	(73)	(30)	(59)
Net loss available to common stockholders	(22)%	(77)%	(30)%	(61)%
(1) Includes stock-based compensation as follows:				
Cost of revenue - Other	0.5%	0.2%	0.5%	0.2%
Cost of revenue - Ticketing service	—	—	—	—
Product development	2.1	2.5	2.5	2.5
Sales and marketing	4.4	4.0	4.5	4.1
General and administrative	2.5	3.5	3.7	3.0
Note: Amounts may not recalculate due to rounding				

Revenue

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Revenue						
Advertising	$ 265,126	$ 278,204	$ 13,078	$ 485,434	$ 501,512	$ 16,078
Subscription and other	55,125	68,900	13,775	109,857	133,778	23,921
Ticketing service	22,771	29,730	6,959	45,036	57,548	12,512
Total revenue	$ 343,022	$ 376,834	$ 33,812	$ 640,327	$ 692,838	$ 52,511

Advertising revenue

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-through rates. We also have arrangements with advertising agencies under which these agencies sell advertising inventory on our service directly to advertisers. We report revenue under these arrangements net of amounts due to agencies. For the three months ended June 30, 2016 and 2017 and the six months ended June 30, 2016 and 2017, advertising revenue accounted for 77% , 74%, 76% and 72% of our total revenue, respectively. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the three months ended June 30, 2017 compared to 2016, advertising revenue increased $13.1 million or 5%, primarily due to an approximate 5% increase in the number of ads sold.

For the six months ended June 30, 2017 compared to 2016, advertising revenue increased $16.1 million or 3%, primarily due to an approximate 10% increase in the number of ads sold, offset by an approximate 5% decrease in the average price per ad.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of monthly or annual paid subscriptions to Pandora Plus and Pandora Premium. Pandora Plus is a paid, ad-free version of the Pandora service that includes replays, additional skipping, offline listening, higher quality audio on supported devices and longer timeout-free listening. Pandora Premium is a paid, ad-free version of the Pandora service that also offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generates playlists based on their listening activity. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the three months ended June 30, 2016 and 2017 and the six months ended June 30, 2016 and 2017, subscription and other revenue accounted for 16%, 18%, 17% and 19% of our total revenue, respectively.

For the three months ended June 30, 2017 compared to 2016, subscription and other revenue increased $13.8 million or 25%, primarily due to an approximate 25% increase in the number of subscribers.

For the six months ended June 30, 2017 compared to 2016, subscription and other revenue increased $23.9 million or 22%, primarily due to an approximate 25% increase in the number of subscribers.

Ticketing service

Ticketing service revenue is generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket, which generally increases as the face value of the ticket increases, or a percentage of the total convenience charge and order processing fee, for its services at the time the ticket for an event is sold. Ticketing service revenue is recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. For the three months ended June 30, 2016 and 2017 and the six months ended June 30, 2016 and 2017, ticketing service revenue accounted for 7% , 8%, 7% and 8% of our total revenue, respectively. In June 2017, we entered into an agreement to sell Ticketfly. Refer to Note 6 "Assets Held for Sale" in the Notes to Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

For the three months ended June 30, 2017 compared to 2016, ticketing service revenue increased $7.0 million or 31%, primarily due to an approximate 25% increase in the number of tickets sold, excluding box office sales.

For the six months ended June 30, 2017 compared to 2016, ticketing service revenue increased $12.5 million or 28%, primarily due to an approximate 25% increase in the number of tickets sold, excluding box office sales.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue— ticketing. Our operating expenses consist of product development, sales and marketing, general and administrative costs, goodwill impairment and contract termination fees. Cost of revenue—content acquisition costs are the most significant component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses. In any particular period, the timing of additional hires could materially affect our cost of revenue and operating expenses, both in absolute dollars and as a percentage of revenue.

Cost of revenue—Content acquisition costs

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Content acquisition costs	$ 176,633	$ 195,875	$ 19,242	$ 347,897	$ 383,295	$ 35,398

Cost of revenue—content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners.

In the year ended December 31, 2016, we obtained the rights to stream the majority of sound recordings on our service through statutory licenses, with the costs for such licenses determined according to the per play rates set by the Copyright Royalty Board. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

During the three and six months ended June 30, 2017, the majority of our content acquisition costs were calculated using negotiated rates in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount, all generally subject to certain discounts. For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings. For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. § 115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the three months ended June 30, 2017 compared to 2016, content acquisition costs increased $19.2 million or 11% and content acquisition costs as a percentage of total revenue increased from 51% to 52%, primarily due to rate increases related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs in the three months ended June 30, 2016.

For the six months ended June 30, 2017 compared to 2016, content acquisition costs increased $35.4 million or 10% and content acquisition costs as a percentage of total revenue increased from 54% to 55%, primarily due to rate increases related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs in the six months ended June 30, 2016.

Cost of revenue—Other

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Other	$ 25,106	$ 27,440	$ 2,334	$ 46,301	$ 52,972	$ 6,671

Cost of revenue—other consists primarily of ad and music serving costs, employee-related costs, facilities and equipment costs, other costs of ad sales and amortization expense related to acquired intangible assets and internal-use software. In the three and six months ended June 30, 2017 we reallocated headcount from cost of revenue—other to other financial statement line items due to a reorganization of the company as a result of a change in company strategy. Ad and music serving costs consist of content streaming, maintaining our internet radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are sold as part of certain of our advertising arrangements.

For the three months ended June 30, 2017 compared to 2016, cost of revenue—other increased $2.3 million or 9%, primarily due to a $3.3 million increase in amortization expense of acquired intangible assets and internal-use software and a $1.2 million increase in other costs of ad sales, offset by a $3.4 million decrease in employee-related costs driven by an approximate 40% decrease in average headcount related to the reorganization of the company as a result of a change in company strategy and the reduction in force in the first quarter of 2017.

For the six months ended June 30, 2017 compared to 2016, cost of revenue—other increased $6.7 million or 14%, primarily due to a $4.4 million increase in ad and music serving costs driven by an increase in revenue, a $4.1 million increase in amortization expense of acquired intangible assets and internal-use software and a $3.0 million increase in other costs of ad sales, offset by a $6.1 million decrease in employee-related costs driven by an approximate 35% decrease in average headcount related to the reorganization of the company as a result of a change in company strategy and the reduction in force in the first quarter of 2017.

Cost of revenue—Ticketing service

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Ticketing service	$ 15,259	$ 20,510	$ 5,251	$ 29,905	$ 39,128	$ 9,223

Cost of revenue—ticketing service consists primarily of ticketing revenue share costs, hosting costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs are related to revenue share costs, which consist of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense is related to amortization of developed technology acquired in connection with the Ticketfly acquisition. In June 2017, we entered into an agreement to sell Ticketfly. Refer to Note 6 "Assets Held for Sale" in the Notes to Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

For the three months ended June 30, 2017 compared to 2016, cost of revenue—ticketing service increased $5.3 million or 34%, primarily due to a $4.8 million increase in revenue share costs driven by an increase in ticketing service revenue of 31%.

For the six months ended June 30, 2017 compared to 2016, cost of revenue—ticketing service increased $9.2 million or 31%, primarily due to a $7.5 million increase in revenue share costs and an increase of $1.5 million in credit card fees, both of which were driven by an increase in ticketing service revenue of 28%.

Gross margin

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Gross profit						
Total revenue	$ 343,022	$ 376,834	$ 33,812	$ 640,327	$ 692,838	$ 52,511
Total cost of revenue	216,998	243,825	26,827	424,103	475,395	51,292
Gross profit	$ 126,024	$ 133,009	$ 6,985	$ 216,224	$ 217,443	$ 1,219
Gross margin	37%	35%		34%	31%	

For the three months ended June 30, 2017 compared to 2016, gross margin decreased from 37% to 35% as the growth in cost of revenue—content acquisition costs outpaced the growth in revenue due to rate increases related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs in the three months ended June 30, 2016.

For the six months ended June 30, 2017 compared to 2016, gross margin decreased from 34% to 31% as the growth in cost of revenue—content acquisition costs outpaced the growth in revenue due to rate increases related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs in the six months ended June 30, 2016.

Product development

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Product development	$ 33,560	$ 41,233	$ 7,673	$ 69,171	$ 80,821	$ 11,650

Product development consists primarily of employee-related costs, including salaries and benefits related to employees in software engineering, music analysis and product management departments, facilities and equipment costs, information technology, costs associated with supporting consumer connected-device manufacturers in implementing our service in their products and amortization expense related to acquired intangible assets. We incur product development expenses primarily for improvements to our website and the Pandora app, development of new services and enhancement of existing services, development of new advertising products and development and enhancement of our personalized playlisting system. We have generally expensed product development as incurred. These amounts are offset by costs that we capitalize to develop software for internal use. Certain website development and internal use software development costs are capitalized when specific criteria are met. In such cases, the capitalized amounts are amortized over the useful life of the related application once the application is placed in service.

For the three months ended June 30, 2017 compared to 2016, product development expenses increased by $7.7 million or 23%, primarily due to a $4.5 million increase in employee-related costs driven by an approximate 10% increase in average headcount and a $3.0 million decrease in capitalized personnel costs driven by the launch of Pandora Premium.

For the six months ended June 30, 2017 compared to 2016, product development expenses increased by $11.7 million or 17%, primarily due to a $7.3 million increase in employee-related costs driven by an approximate 10% increase in average headcount and a $2.8 million decrease in capitalized personnel costs driven by the launch of Pandora Premium.

Sales and marketing

	Three months ended June 30,			Six months ended June 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Sales and marketing	$ 123,589	$ 145,891	$ 22,302	$ 241,022	$ 270,993	$ 29,971

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Pandora Media, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANDORA MEDIA, INC.

Date: July 31, 2017

By: /s/ Naveen Chopra
Naveen Chopra
Interim Chief Executive Officer and Chief Financial Officer
(Duly Authorized Officer and Principal Executive and Financial Officer)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of registrant's common stock outstanding as of October 31, 2017 was: 248,782,017.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Pandora Media, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts) (unaudited)

	As of December 31, 2016	As of September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 199,944	$ 493,181
Short-term investments	37,109	6,249
Accounts receivable, net of allowance of $3,633 at December 31, 2016 and $5,854 at September 30, 2017	309,267	312,277
Prepaid content acquisition costs	46,310	80,152
Prepaid expenses and other current assets	33,191	20,294
Total current assets	625,821	912,153
Convertible promissory note receivable	—	34,132
Long-term investments	6,252	—
Property and equipment, net	124,088	117,700
Goodwill	306,691	71,243
Intangible assets, net	90,425	21,304
Other long-term assets	31,533	8,999
Total assets	$ 1,184,810	$ 1,165,531
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities		
Accounts payable	$ 15,224	$ 8,444
Accrued liabilities	35,465	33,180
Accrued content acquisition costs	93,723	99,798
Accrued compensation	60,353	42,753
Deferred revenue	28,359	33,977
Other current liabilities	20,993	—
Total current liabilities	254,117	218,152
Long-term debt, net	342,247	267,396
Other long-term liabilities	34,187	27,068
Total liabilities	630,551	512,616
Redeemable convertible preferred stock: 480,000 shares issued and outstanding at September 30, 2017	—	483,588
Stockholders' equity		
Common stock: 235,162,757 shares issued and outstanding at December 31, 2016 and 248,681,713 at September 30, 2017	24	25
Additional paid-in capital	1,264,693	1,387,957
Accumulated deficit	(709,636)	(1,217,283)
Accumulated other comprehensive loss	(822)	(1,372)
Total stockholders' equity	554,259	169,327
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,184,810	$ 1,165,531

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Pandora Media, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2017	2016	2017
Revenue				
Advertising	$ 273,716	$ 275,741	$ 759,150	$ 777,253
Subscription and other	56,100	84,414	165,957	218,192
Ticketing service	22,085	18,484	67,121	76,032
Total revenue	351,901	378,639	992,228	1,071,477
Cost of revenue				
Cost of revenue—Content acquisition costs	174,334	204,222	522,231	587,517
Cost of revenue—Other	25,896	27,287	72,197	80,259
Cost of revenue—Ticketing service	15,318	11,269	45,223	50,397
Total cost of revenue	215,548	242,778	639,651	718,173
Gross profit	136,353	135,861	352,577	353,304
Operating expenses				
Product development	33,560	39,469	102,731	120,290
Sales and marketing	116,091	107,588	357,113	378,581
General and administrative	41,909	48,171	129,193	150,650
Goodwill impairment	—	—	—	131,997
Contract termination (benefit) fees	—	(423)	—	23,044
Total operating expenses	191,560	194,805	589,037	804,562
Loss from operations	(55,207)	(58,944)	(236,460)	(451,258)
Interest expense	(6,494)	(7,592)	(18,916)	(22,377)
Other income, net	579	559	1,696	866
Total other expense, net	(5,915)	(7,033)	(17,220)	(21,511)
Loss before (provision for) benefit from income taxes	(61,122)	(65,977)	(253,680)	(472,769)
(Provision for) benefit from income taxes	(412)	(266)	711	(877)
Net loss	(61,534)	(66,243)	(252,969)	(473,646)
Net loss available to common stockholders	$ (61,534)	$ (84,562)	$ (252,969)	$ (506,493)
Basic and diluted net loss per common share	$ (0.27)	$ (0.34)	$ (1.10)	$ (2.10)
Weighted-average basic and diluted common shares	232,139	245,810	229,524	241,579

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2017	2016	2017
Net loss	$ (61,534)	$ (66,243)	$ (252,969)	$ (473,646)
Change in foreign currency translation adjustment	(129)	(729)	(417)	(600)
Change in net unrealized loss on marketable securities	(45)	8	348	50
Other comprehensive loss	(174)	(721)	(69)	(550)
Total comprehensive loss	$ (61,708)	$ (66,964)	$ (253,038)	$ (474,196)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Advertising Content Acquisition Costs per Thousand Listener Hours ("ad LPM")

We track ad LPM for our non-subscription, ad-supported service across all delivery platforms. Prior to September 15, 2016, the content acquisition costs included in our ad LPM calculations were relatively fixed, with scheduled annual rate adjustments. Subsequent to September 15, 2016, the content acquisition costs included in our ad LPM calculations are based on the rates set by our license agreements with record labels, PROs and music publishers or the Web IV rates if we have not entered into a license agreement with the copyright owner of a particular sound recording.

Period-to-period results should not be regarded as precise nor can they be relied upon as indicative of results for future periods. In addition, as our business matures and in response to technological evolutions, we anticipate that the relevant indicators we monitor for evaluating our business may change.

The table below sets forth our RPM and LPM for our ad-supported service for the three and nine months ended September 30, 2016 and 2017.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2017	2016	2017
Advertising RPM	$ 58.10	$ 70.27	$ 52.26	$ 62.08
Advertising LPM	$ 31.60	$ 37.01	$ 30.90	$ 35.36

*The calculation of RPM does not include revenue generated by Ticketfly or Next Big Sound.

Advertising RPM

For the three months ended September 30, 2017 compared to 2016, the increase in ad RPM was primarily due to an increase in the average price per ad due to improved monetization of our advertising product.

For the nine months ended September 30, 2017 compared to 2016, the increase in ad RPM was primarily due to an increase in the number of ads sold.

Advertising LPM

For the three and nine months ended September 30, 2017 compared to 2016, the increase in ad LPM was primarily due to rate increases and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs for the majority of the three and nine months ended September 30, 2016.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2017	2016	2017
Revenue				
Advertising	78 %	73 %	77 %	73 %
Subscription and other	16	22	17	20
Ticketing service	6	5	7	7
Total revenue	100	100	100	100
Cost of revenue				
Cost of revenue—Content acquisition costs	50	54	53	55
Cost of revenue—Other	7	7	7	7
Cost of revenue—Ticketing service	4	3	5	5
Total cost of revenue	61	64	64	67
Gross profit	39	36	36	33
Operating expenses				
Product development	10	10	10	11
Sales and marketing	33	28	36	35
General and administrative	12	13	13	14
Goodwill impairment	—	—	—	12
Contract termination (benefit) fees	—	—	—	2
Total operating expenses	54	51	59	75
Loss from operations	(16)	(16)	(24)	(42)
Interest expense	(2)	(2)	(2)	(2)
Other income, net	—	—	—	—
Total other expense, net	(2)	(2)	(2)	(2)
Loss before (provision for) benefit from income taxes	(17)	(17)	(26)	(44)
(Provision for) benefit from income taxes	—	—	—	—
Net loss	(17)	(17)	(25)	(44)
Net loss available to common stockholders	(17)%	(22)%	(25)%	(47)%

(1) Includes stock-based compensation as follows:				
Cost of revenue - Other	0.4%	0.2%	0.5%	0.2%
Cost of revenue - Ticketing service	—	—	—	—
Product development	2.1	2.2	2.3	2.4
Sales and marketing	4.2	3.7	4.4	4.0
General and administrative	2.5	1.8	3.3	2.6

Note: Amounts may not recalculate due to rounding

Revenue

	Three months ended September 30,			Nine months ended September 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Revenue						
Advertising	$ 273,716	$ 275,741	$ 2,025	$ 759,150	$ 777,253	$ 18,103
Subscription and other	56,100	84,414	28,314	165,957	218,192	52,235
Ticketing service	22,085	18,484	(3,601)	67,121	76,032	8,911

Total revenue	$ 351,901	$ 378,639	$ 26,738	$ 992,228	$ 1,071,477	$ 79,249

Advertising revenue

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-through rates. We also have arrangements with advertising agencies under which these agencies sell advertising inventory on our service directly to advertisers. We report revenue under these arrangements net of amounts due to agencies. For the three months ended September 30, 2016 and 2017 and the nine months ended September 30, 2016 and 2017, advertising revenue accounted for 78% , 73%, 77% and 73% of our total revenue, respectively. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the three months ended September 30, 2017 compared to 2016, advertising revenue increased $2.0 million or 1%, primarily due to an increase in the average price per ad, offset by a decrease in the number of ads sold.

For the nine months ended September 30, 2017 compared to 2016, advertising revenue increased $18.1 million or 2%, primarily due to an increase in the number of ads sold.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of monthly or annual paid subscriptions to Pandora Plus and Pandora Premium. Pandora Plus is a paid, ad-free version of the Pandora service that includes replays, additional skipping, offline listening, higher quality audio on supported devices and longer timeout-free listening. Pandora Premium is a paid, ad-free version of the Pandora service that also offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generates playlists based on their listening activity. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the three months ended September 30, 2016 and 2017 and the nine months ended September 30, 2016 and 2017, subscription and other revenue accounted for 16%, 22%, 17% and 20% of our total revenue, respectively.

For the three months ended September 30, 2017 compared to 2016, subscription and other revenue increased $28.3 million or 50%, primarily due to an approximate 30% increase in the number of subscribers and an approximate 15% increase in the average price per paid subscriber due to the launch of Pandora Premium.

For the nine months ended September 30, 2017 compared to 2016, subscription and other revenue increased $52.2 million or 31%, primarily due to an approximate 30% increase in the number of subscribers.

Ticketing service

Ticketing service revenue is generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket, which generally increases as the face value of the ticket increases, or a percentage of the total convenience charge and order processing fee, for its services at the time the ticket for an event is sold. Ticketing service revenue is recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. For the three months ended September 30, 2016 and 2017 and the nine months ended September 30, 2016 and 2017, ticketing service revenue accounted for 6% , 5%, 7% and 7% of our total revenue, respectively. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Ticketing service revenue is included in our Condensed Consolidated Statements of Operations for the period from January 1, 2017 to September 1, 2017. Ticketing service revenue does not include revenue subsequent to the disposition of Ticketfly. Refer to Note 6 "Dispositions" in the Notes to Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

For the three months ended September 30, 2017 compared to 2016, ticketing service revenue decreased $3.6 million or 16%, primarily due to a decrease in the number of tickets sold, excluding box office sales, as a result of the sale of Ticketfly on September 1, 2017.

For the nine months ended September 30, 2017 compared to 2016, ticketing service revenue increased $8.9 million or 13%, primarily due to an increase in the number of tickets sold, excluding box office sales.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue— ticketing. Our operating expenses consist of product development, sales and marketing, general and administrative costs, goodwill impairment and contract termination fees (benefit). Cost of revenue—content acquisition costs are the largest component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses.

Cost of revenue—Content acquisition costs

	Three months ended September 30,			Nine months ended September 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Content acquisition costs	$ 174,334	$ 204,222	$ 29,888	$ 522,231	$ 587,517	$ 65,286

Cost of revenue—content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners.

In the year ended December 31, 2016, we obtained the rights to stream the majority of sound recordings on our service through statutory licenses, with the costs for such licenses determined according to the per play rates set by the Copyright Royalty Board. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

During the three and nine months ended September 30, 2017, the majority of our content acquisition costs were calculated using negotiated rates in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount, all generally subject to certain discounts. For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings. For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. § 115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the three months ended September 30, 2017 compared to 2016, content acquisition costs increased $29.9 million or 17% and content acquisition costs as a percentage of total revenue increased from 50% to 54%, primarily due to rate increases and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs for the majority of the three months ended September 30, 2016.

For the nine months ended September 30, 2017 compared to 2016, content acquisition costs increased $65.3 million or 13% and content acquisition costs as a percentage of total revenue increased from 53% to 55%, primarily due to rate increases and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs for the majority of the nine months ended September 30, 2016.

Cost of revenue—Other

	Three months ended September 30,			Nine months ended September 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Other	$ 25,896	$ 27,287	$ 1,391	$ 72,197	$ 80,259	$ 8,062

Cost of revenue—other consists primarily of ad and music serving costs, employee-related costs, facilities and equipment costs, other costs of ad sales and amortization expense related to acquired intangible assets and internal-use software. In the nine months ended September 30, 2017 we reallocated headcount from cost of revenue—other to other financial statement line items due to a reorganization of the company as a result of a change in company strategy. Ad and music serving costs consist of content streaming, maintaining our internet radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are included as part of certain of our advertising arrangements.

For the three months ended September 30, 2017 compared to 2016, cost of revenue—other increased $1.4 million or 5%, primarily due to a $2.0 million increase in amortization expense of internal-use software and a $1.6 million increase in amortization expense of acquired intangible assets, offset by a $2.7 million decrease in employee-related costs driven by a decrease in average headcount related to the reorganization of the company as a result of a change in company strategy and the reduction in force in the first quarter of 2017.

For the nine months ended September 30, 2017 compared to 2016, cost of revenue—other increased $8.1 million or 11%, primarily due to a $4.8 million increase in ad and music serving costs, a $4.5 million increase in amortization expense of internal-use software and a $3.1 million increase in amortization expense of acquired intangible assets, both of which were driven by the launch of Pandora Premium, and a $3.6 million increase in other costs of ad sales. This was offset by an $8.6 million decrease in employee-related costs driven by a decrease in average headcount related to the reorganization of the company as a result of a change in company strategy and the reduction in force in the first quarter of 2017.

Cost of revenue—Ticketing service

	Three months ended September 30,			Nine months ended September 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Ticketing service	$ 15,318	$ 11,269	$ (4,049)	$ 45,223	$ 50,397	$ 5,174

Cost of revenue—ticketing service consists primarily of ticketing revenue share costs, hosting costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs are related to revenue share costs, which consist of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense is related to amortization of developed technology acquired in connection with the Ticketfly acquisition. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Cost of revenue—ticketing service is included in our Condensed Consolidated Statements of Operations for the period from January 1, 2017 to September 1, 2017. Cost of revenue—ticketing service does not include costs subsequent to the disposition of Ticketfly. Refer to Note 6 "Dispositions" in the Notes to Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

For the three months ended September 30, 2017 compared to 2016, cost of revenue—ticketing service decreased $4.0 million or 26%, primarily due to a $1.5 million decrease in revenue share costs driven by a decrease in ticketing service revenue of 16%. The decrease in ticketing service revenue was primarily due to a decrease in the number of tickets sold, excluding box office sales, as a result of the sale of Ticketfly on September 1, 2017.

For the nine months ended September 30, 2017 compared to 2016, cost of revenue—ticketing service increased $5.2 million or 11%, primarily due to a $6.1 million increase in revenue share costs driven by an increase in ticketing service revenue of 13%, offset by a $1.9 million decrease in amortization of acquired intangible assets, as these assets were classified as held for sale and no amortization was recorded for the period from June 2017 through the sale date of September 1, 2017.

Gross margin

	Three months ended September 30,			Nine months ended September 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Gross profit						
Total revenue	$ 351,901	$ 378,639	$ 26,738	$ 992,228	$ 1,071,477	$ 79,249
Total cost of revenue	215,548	242,778	27,230	639,651	718,173	78,522
Gross profit	$ 136,353	$ 135,861	$ (492)	$ 352,577	$ 353,304	$ 727
Gross margin	39%	36%		36%	33%	

For the three months ended September 30, 2017 compared to 2016, gross margin decreased from 39% to 36% as the growth in cost of revenue—content acquisition costs outpaced the growth in revenue due to rate increases and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs for the majority of the three months ended September 30, 2016.

For the nine months ended September 30, 2017 compared to 2016, gross margin decreased from 36% to 33% as the growth in cost of revenue—content acquisition costs outpaced the growth in revenue due to rate increases and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers in comparison to the statutory rates used to calculate our content acquisition costs for the majority of the nine months ended September 30, 2016.

Product development

	Three months ended September 30,			Nine months ended September 30,		
	2016	2017	$ Change	2016	2017	$ Change
	(in thousands)			(in thousands)		
Product development	$ 33,560	$ 39,469	$ 5,909	$ 102,731	$ 120,290	$ 17,559

Product development consists primarily of employee-related costs, including salaries and benefits related to employees in software engineering, music analysis and product management departments, facilities and equipment costs, information technology and amortization expense related to acquired intangible assets. We incur product development expenses primarily for improvements to our website and the Pandora app, development of new services and enhancement of existing services, development of new advertising products and development and enhancement of our personalized playlisting system. We have generally expensed product development as incurred. These amounts are offset by costs that we capitalize to develop software for internal use. Certain website development and internal use software development costs are capitalized when specific criteria are met. In such cases, the capitalized amounts are amortized over the useful life of the related application once the application is placed in service.

For the three months ended September 30, 2017 compared to 2016, product development expenses increased by $5.9 million or 18%, primarily due to a $4.3 million decrease in capitalized personnel costs driven by an increase in costs that were not capitalized, as these related to minor enhancements to and maintenance of Pandora Premium, which was launched in April 2017. The increase was also due to an increase in employee related costs of $2.6 million as a result of an increase in average headcount.

For the nine months ended September 30, 2017 compared to 2016, product development expenses increased by $17.6 million or 17%, primarily due to a $9.9 million increase in employee-related costs driven by an increase in average headcount and a $7.1 million decrease in capitalized personnel costs driven by an increase in costs that were not capitalized, as these related to minor enhancements to and maintenance of Pandora Premium, which was launched in April 2017. This was offset by a $3.3 million decrease in amortization of acquired intangible assets.

Sales and marketing

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Pandora Media, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANDORA MEDIA, INC.

Date: November 2, 2017

By: /s/ Naveen Chopra
Naveen Chopra
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of registrant's common stock outstanding as of April 30, 2018 was: 255,110,267.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Pandora Media, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts) (unaudited)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 499,597	$ 454,923
Short-term investments	1,250	89,482
Accounts receivable, net of allowance of $5,352 at December 31, 2017 and $4,580 at March 31, 2018	336,429	269,584
Prepaid content acquisition costs	55,668	35,901
Prepaid expenses and other current assets	19,220	20,074
Total current assets	912,164	869,964
Convertible promissory note receivable	35,471	—
Property and equipment, net	116,742	114,487
Goodwill	71,243	71,243
Intangible assets, net	19,409	17,891
Other long-term assets	11,293	11,285
Total assets	$ 1,166,322	$ 1,084,870
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities		
Accounts payable	$ 14,896	$ 15,762
Accrued liabilities	34,535	37,655
Accrued content acquisition costs	97,751	106,254
Accrued compensation	47,635	42,908
Deferred revenue	31,464	37,681
Total current liabilities	226,281	240,260
Long-term debt, net	273,014	278,410
Other long-term liabilities	23,500	22,714
Total liabilities	522,795	541,384
Redeemable convertible preferred stock: 480,000 shares issued and outstanding at December 31, 2017 and 480,000 at March 31, 2018	490,849	498,211
Stockholders' equity		
Common stock: 250,867,462 shares issued and outstanding at December 31, 2017 and 255,044,043 at March 31, 2018	25	26
Additional paid-in capital	1,422,221	1,453,915
Accumulated deficit	(1,269,351)	(1,408,419)
Accumulated other comprehensive loss	(217)	(247)
Total stockholders' equity	152,678	45,275
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,166,322	$ 1,084,870

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended March 31,	
	2017	2018
Revenue		
Advertising	$ 223,308	$ 214,568
Subscription and other	64,878	104,665
Ticketing service	27,818	—
Total revenue	316,004	319,233
Cost of revenue		
Cost of revenue—Content acquisition costs	187,420	217,580
Cost of revenue—Other	25,532	26,849
Cost of revenue—Ticketing service	18,618	—
Total cost of revenue	231,570	244,429
Gross profit	84,434	74,804
Operating expenses		
Product development	39,588	35,884
Sales and marketing	125,102	124,216
General and administrative	44,525	41,631
Total operating expenses	209,215	201,731
Loss from operations	(124,781)	(126,927)
Interest expense	(7,381)	(7,286)
Other income, net	229	2,582
Total other expense, net	(7,152)	(4,704)
Loss before provision for income taxes	(131,933)	(131,631)
Provision for income taxes	(334)	(74)
Net loss	(132,267)	(131,705)
Net loss available to common stockholders	$ (132,267)	$ (139,068)
Basic and diluted net loss per common share	$ (0.56)	$ (0.55)
Weighted-average basic and diluted common shares	237,515	252,934

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended March 31,	
	2017	**2018**
Net loss	$ (132,267)	$ (131,705)
Change in foreign currency translation adjustment	191	(14)
Change in net unrealized gain (loss) on marketable securities	35	(16)
Other comprehensive income (loss)	226	(30)
Total comprehensive loss	$ (132,041)	$ (131,735)

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Pandora Media, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands) (unaudited)

	Three months ended March 31,	
	2017	2018
Operating activities		
Net loss	$ (132,267)	$ (131,705)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Loss on dispositions	—	2,173
Depreciation and amortization	17,680	13,779
Stock-based compensation	29,618	26,436
Amortization of premium on investments, net	53	(118)
Accretion of discount on convertible promissory note receivable	—	(534)
Other operating activities	365	65
Amortization of debt discount	4,886	5,396
Interest income	—	(810)
Provision for (recoveries of) bad debt	1,390	(315)
Changes in operating assets and liabilities		
Accounts receivable	44,941	67,160
Prepaid content acquisition costs	(2,232)	19,767
Prepaid expenses and other assets	(5,579)	(1,588)
Accounts payable, accrued and other current liabilities	13,192	4,749
Accrued content acquisition costs	(3,762)	8,503
Accrued compensation	(13,207)	(1,347)
Other long-term liabilities	(244)	(786)
Deferred revenue	3,996	6,217
Reimbursement of cost of leasehold improvements	5,236	357
Net cash (used in) provided by operating activities	(35,934)	17,399
Investing activities		
Purchases of property and equipment	(1,980)	(3,410)
Internal-use software costs	(7,765)	(5,489)
Purchases of investments	—	(89,341)
Proceeds from maturities of investments	11,220	1,250
Proceeds from cancellation of convertible promissory note receivable	—	34,742
Net cash provided by (used in) investing activities	1,475	(62,248)
Financing activities		
Proceeds from employee stock purchase plan	2,798	37
Proceeds from exercise of stock options	2,388	248
Tax payments from net share settlements of restricted stock units	—	(287)
Net cash provided by (used in) financing activities	5,186	(2)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	210	(8)
Net decrease in cash, cash equivalents and restricted cash	(29,063)	(44,859)
Cash, cash equivalents and restricted cash at beginning of period	201,820	500,854
Cash, cash equivalents and restricted cash at end of period	$ 172,757	$ 455,995
Supplemental disclosures of cash flow information		
Purchases of property and equipment recorded in accounts payable and accrued liabilities	$ 4,098	$ 1,339
Cash paid during the period for interest	$ 896	$ 249

Preferred stock dividends	$ —	$ 7,363
Employee Stock Purchase Plan ("ESPP") purchases	$ 3,306	$ 3,381
Reconciliation of cash, cash equivalents and restricted cash as shown in the statements of cash flows		
Cash and cash equivalents	$ 170,881	$ 454,923
Restricted cash included in prepaid expenses and other current assets line item of Condensed Consolidated Balance Sheets	—	1,072
Restricted cash included in other long-term assets line item of Condensed Consolidated Balance Sheets	1,876	—
Total cash, cash equivalents and restricted cash	$ 172,757	$ 455,995

The accompanying notes are an integral part of the condensed consolidated financial statements.

Advertising LPM

For the three months ended March 31, 2018 compared to 2017, the increase in ad LPM was primarily due to scheduled increases in rates paid to PROs for our publishing royalties and increased content acquisition costs associated with minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers.

Subscription Services—Total

Paid Subscribers

Paid subscribers are defined as the number of distinct users that have current, paid access to our subscription service as of the end of the period. We track paid subscribers because it is a key indicator of the growth of our subscription services.

The below table sets forth our paid subscribers as of December 31, 2017 and March 31, 2018.

	As of March 31,	
	2017	2018
	(in millions)	
Paid subscribers	4.71	5.63

ARPU and LPU

ARPU is defined as average monthly revenue per paid subscriber on our subscription services. LPU is defined as average monthly licensing costs per paid subscriber on our subscription services. We believe ARPU to be the central top-line indicator for evaluating the results of our monetization efforts on our subscription services. We track LPU because it is a key measure of our ability to manage costs for our subscription services. The below table sets forth our ARPU and LPU for our subscription services for the three months ended March 31, 2017 and 2018.

	Three months ended March 31,			
	2017		2018	
	ARPU	LPU	ARPU	LPU
Subscription Services	$ 4.76	$ 2.96	$ 6.30	$ 4.65

Subscription ARPU

For the three months ended March 31, 2018 compared to 2017, the increase in subscription ARPU is primarily due to the increase in subscription revenue related to Pandora Premium, which launched in the second quarter of 2017 at a higher price point than Pandora Plus.

Subscription LPU

For the three months ended March 31, 2018 compared to 2017, the increase in subscription LPU is primarily due to an increase in content acquisition costs associated with Pandora Premium and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three months ended March 31,	
	2017	2018
Revenue		
Advertising	71 %	67 %
Subscription and other	21	33
Ticketing service	9	—
Total revenue	100	100
Cost of revenue		
Cost of revenue—Content acquisition costs	59	68
Cost of revenue—Other	8	8
Cost of revenue—Ticketing service	6	—
Total cost of revenue	73	77
Gross profit	27	23
Operating expenses		
Product development	13	11
Sales and marketing	40	39
General and administrative	14	13
Total operating expenses	66	63
Loss from operations	(39)	(40)
Interest expense	(2)	(2)
Other income, net	—	1
Total other expense, net	(2)	(1)
Loss before provision for income taxes	(42)	(41)
Provision for income taxes	—	—
Net loss	(42)	(41)
Net loss available to common stockholders	(42)%	(44)%

(1) Includes stock-based compensation as follows:		
Cost of revenue - Other	0.3%	0.2%
Cost of revenue - Ticketing service	—	—
Product development	2.5	2.0
Sales and marketing	4.3	3.7
General and administrative	2.3	2.3

Note: Amounts may not recalculate due to rounding

Revenue

	Three months ended March 31,		
	2017	2018	$ Change
	(in thousands)		
Revenue			
Advertising	$ 223,308	$ 214,568	$ (8,740)
Subscription and other	64,878	104,665	39,787
Ticketing service	27,818	—	(27,818)
Total revenue	$ 316,004	$ 319,233	$ 3,229

Advertising revenue

We generate advertising revenue in contracts with customers primarily from audio, display and video advertising. We generate the majority of our advertising revenue through the delivery of advertising impressions sold on a cost per thousand basis (“CPM”). We also offer advertising on other bases such as cost per engagement (“CPE”) and cost per view ("CPV"), under which an advertiser pays us based on the number of times a listener engages with an ad. We generally recognize revenues as these deliveries occur. Our contracts for advertising revenues are typically less than twelve months in duration. For the three months ended March 31, 2017 and 2018, advertising revenue accounted for 71% and 67% of our total revenue. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the three months ended March 31, 2018 compared to 2017, advertising revenue decreased $8.7 million or 4%, primarily due to a decrease in the number of ads sold, offset by an increase in the average price per ad due to new advertising products resulting in improved monetization.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of monthly or annually paid subscriptions to Pandora Plus and Pandora Premium. The enforceable rights in monthly subscription contracts are the monthly service period, whereas the annual subscriptions are cancelable at any time. For monthly subscriptions where there are no cancellation provisions, we recognize revenue on a straight-line basis over the monthly service term. Because of the cancellation clauses for the annual subscriptions, the duration of these contracts is daily, and revenue for these contracts is recognized on a daily ratable basis. Historically, cancellation rates have been immaterial. For the three months ended March 31, 2017 and 2018, subscription and other revenue accounted for 21% and 33% of our total revenue.

For the three months ended March 31, 2018 compared to 2017, subscription and other revenue increased $39.8 million or 61%, primarily due to an increase in the number of subscribers and an increase in the average price per paid subscriber due to the launch and growth of Pandora Premium.

Ticketing service

Ticketing service revenue was generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket or a percentage of the total convenience charge and order processing fee for its services at the time the ticket for an event is sold. Ticketing service revenue was recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. For the three months ended March 31, 2017, ticketing service revenue accounted for approximately 9% of our total revenue. There was no ticketing service revenue in the three months ended March 31, 2018. Refer to Note 6 "Dispositions" in our Annual Report on Form 10-K for the year ended December 31, 2017 for further details on the Ticketfly disposition.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue— ticketing. Our operating expenses consist of product development, sales and marketing and general and administrative costs. Cost of revenue—content acquisition costs are the largest component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses.

Cost of revenue—Content acquisition costs

	Three months ended March 31,		
	2017	2018	$ Change
	(in thousands)		
Cost of revenue—Content acquisition costs	$ 187,420	$ 217,580	$ 30,160

Cost of revenue—content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners. We have obtained the rights to stream the majority of sound recordings on our service through direct license agreements, with the costs for such licenses determined according to the terms of each agreement. If we have not entered into a direct license agreement with the copyright owner of a particular sound recording that is streamed on our services, we stream

that sound recording pursuant to a statutory license and pay the applicable per play rates set by the CRB. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

The majority of our content acquisition costs were calculated using negotiated rates in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount.

For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings.

For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. § 115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the three months ended March 31, 2018 compared to 2017, content acquisition costs increased $30.2 million or 16% and content acquisition costs as a percentage of total revenue increased from 59% to 68%. The increase is primarily due to an increase in content acquisition costs associated with the growth of Pandora Premium, minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers and an increase in rates determined by the Section 115 ruling.

Cost of revenue—Other

	Three months ended March 31,		
	2017	**2018**	**$ Change**
		(in thousands)	
Cost of revenue—Other	$ 25,532	$ 26,849	$ 1,317

Cost of revenue—other consists primarily of ad and music serving costs, employee-related costs, facilities and equipment costs, other costs of ad sales and amortization expense related to acquired intangible assets and internal-use software. Ad and music serving costs consist of content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are included as part of certain of our advertising arrangements.

For the three months ended March 31, 2018 compared to 2017, cost of revenue—other increased $1.3 million or 5%, primarily due to a $3.2 million increase in amortization expense of internal-use software and acquired intangible assets related to the launch of Pandora Premium, offset by a $1.3 million decrease in other costs of ad sales.

Cost of revenue—Ticketing service

	Three months ended March 31,		
	2017	**2018**	**$ Change**
		(in thousands)	
Cost of revenue—Ticketing service	$ 18,618	$ —	$ (18,618)

Cost of revenue—ticketing service consisted primarily of ticketing revenue share costs, hosting costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs were related to revenue share costs, which consisted of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense

was related to amortization of developed technology acquired in connection with the Ticketfly acquisition. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Refer to Note 6 "Dispositions" in our Annual Report on Form 10-K for the year ended December 31, 2017 for further details on the Ticketfly disposition.

Gross margin

	Three months ended March 31,		
	2017	2018	$ Change
	(in thousands)		
Gross profit			
Total revenue	$ 316,004	$ 319,233	$ 3,229
Total cost of revenue	231,570	244,429	12,859
Gross profit	$ 84,434	$ 74,804	$ (9,630)
Gross margin	27%	23%	

For the three months ended March 31, 2018 compared to 2017, gross margin decreased from 27% to 23%. The decrease is primarily due to an increase in content acquisition costs associated with the growth of Pandora Premium and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers.

Product development

	Three months ended March 31,		
	2017	2018	$ Change
	(in thousands)		
Product development	$ 39,588	$ 35,884	$ (3,704)

Product development consists primarily of employee-related costs, including salaries, benefits and severance related to employees in software engineering, music analysis and product management departments, facilities and equipment costs and amortization expense related to acquired intangible assets. We incur product development expenses primarily for improvements to our platform, development of new services and enhancement of existing services, development of new advertising products and development and enhancement of our personalized playlisting system. We have generally expensed product development as incurred. These amounts are offset by costs that we capitalize to develop software for internal use. Certain internal use software development costs are capitalized when specific criteria are met. In such cases, the capitalized amounts are amortized over the useful life of the related application once the application is placed in service.

For the three months ended March 31, 2018 compared to 2017, product development expenses decreased by $3.7 million or 9%, primarily due to a $3.5 million decrease in employee related costs driven by a decrease in average headcount.

Sales and marketing

	Three months ended March 31,		
	2017	2018	$ Change
	(in thousands)		
Sales and marketing	$ 125,102	$ 124,216	$ (886)

Sales and marketing consists primarily of employee-related costs, including salaries, commissions, benefits and severance related to employees in sales, sales support, marketing, advertising and industry relations and artist marketing departments and facilities and equipment costs. In addition, sales and marketing expenses include commissions on subscription purchases through mobile app stores ("subscription commissions"), external sales and marketing expenses such as brand marketing, advertising, customer acquisition, direct response and search engine marketing costs, public relations expenses,

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Pandora Media, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANDORA MEDIA, INC.

Date: May 3, 2018

By: /s/ Naveen Chopra
Naveen Chopra
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35198

Pandora Media, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-3352630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2101 Webster Street, Suite 1650 Oakland, CA	**94612**
(Address of principal executive offices)	(Zip Code)

(510) 451-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a smaller reporting company)	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of registrant's common stock outstanding as of July 27, 2018 was: 266,318,724.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Pandora Media, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts) (unaudited)

	As of December 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 499,597	$ 292,996
Short-term investments	1,250	127,791
Accounts receivable, net of allowance of $5,352 at December 31, 2017 and $5,935 at June 30, 2018	336,429	339,592
Prepaid content acquisition costs	55,668	24,379
Prepaid expenses and other current assets	19,220	21,799
Total current assets	912,164	806,557
Convertible promissory note receivable	35,471	—
Property and equipment, net	116,742	110,583
Goodwill	71,243	178,917
Intangible assets, net	19,409	59,863
Other long-term assets	11,293	12,023
Total assets	$ 1,166,322	$ 1,167,943
Liabilities, redeemable convertible preferred stock and stockholders' equity		
Current liabilities		
Accounts payable	$ 14,896	$ 17,704
Accrued liabilities	34,535	60,047
Accrued content acquisition costs	97,751	125,791
Accrued compensation	47,635	48,184
Deferred revenue	31,464	43,512
Total current liabilities	226,281	295,238
Long-term debt, net	273,014	250,267
Other long-term liabilities	23,500	25,919
Total liabilities	522,795	571,424
Redeemable convertible preferred stock: 480,000 shares issued and outstanding at December 31, 2017 and 480,000 at June 30, 2018	490,849	505,684
Stockholders' equity		
Common stock: 250,867,462 shares issued and outstanding at December 31, 2017 and 266,317,032 at June 30, 2018	25	27
Additional paid-in capital	1,422,221	1,598,905
Accumulated deficit	(1,269,351)	(1,507,874)
Accumulated other comprehensive loss	(217)	(223)
Total stockholders' equity	152,678	90,835
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,166,322	$ 1,167,943

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
Revenue				
Advertising	$ 278,204	$ 271,056	$ 501,512	$ 485,624
Subscription and other	68,900	113,738	133,778	218,403
Ticketing service	29,730	—	57,548	—
Total revenue	376,834	384,794	692,838	704,027
Cost of revenue				
Cost of revenue—Content acquisition costs	195,875	226,860	383,295	444,440
Cost of revenue—Other	27,440	32,727	52,972	59,576
Cost of revenue—Ticketing service	20,510	—	39,128	—
Total cost of revenue	243,825	259,587	475,395	504,016
Gross profit	133,009	125,207	217,443	200,011
Operating expenses				
Product development	41,233	40,351	80,821	76,235
Sales and marketing	145,891	125,375	270,993	249,591
General and administrative	57,954	53,617	102,479	95,248
Goodwill impairment	131,997	—	131,997	—
Contract termination fees	23,467	—	23,467	—
Total operating expenses	400,542	219,343	609,757	421,074
Loss from operations	(267,533)	(94,136)	(392,314)	(221,063)
Interest expense	(7,404)	(6,745)	(14,785)	(14,031)
Other income, net	78	1,767	307	4,349
Total other expense, net	(7,326)	(4,978)	(14,478)	(9,682)
Loss before provision for income taxes	(274,859)	(99,114)	(406,792)	(230,745)
(Provision for) benefit from income taxes	(277)	7,132	(611)	7,058
Net loss	$ (275,136)	$ (91,982)	$ (407,403)	$ (223,687)
Net loss available to common stockholders	$ (289,664)	$ (99,455)	$ (421,931)	$ (238,523)
Basic and diluted net loss per common share	$ (1.20)	$ (0.38)	$ (1.76)	$ (0.93)
Weighted-average basic and diluted common shares	241,320	259,822	239,428	256,397

The accompanying notes are an integral part of the condensed consolidated financial statements.

Pandora Media, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
Net loss	$ (275,136)	$ (91,982)	$ (407,403)	$ (223,687)
Change in foreign currency translation adjustment	(62)	16	129	2
Change in net unrealized gain (loss) on marketable securities	7	8	42	(8)
Other comprehensive (loss) income	(55)	24	171	(6)
Total comprehensive loss	$ (275,191)	$ (91,958)	$ (407,232)	$ (223,693)

The accompanying notes are an integral part of the condensed consolidated financial statements.

	Three months ended June 30,				Six months ended June 30,			
	2017		2018		2017		2018	
	ARPU	LPU	ARPU	LPU	ARPU	LPU	ARPU	LPU
Subscription Services	$ 4.82	$ 3.11	$ 6.52	$ 4.78	$ 4.79	$ 3.03	$ 6.41	$ 4.72

Subscription ARPU

For the three and six months ended June 30, 2018 compared to 2017, the increase in subscription ARPU is primarily due to the increase in subscription revenue related to an increase in Pandora Premium subscribers. Pandora Premium launched in the second quarter of 2017 at a higher price point than Pandora Plus.

Subscription LPU

For the three and six months ended June 30, 2018 compared to 2017, the increase in subscription LPU is primarily due to an increase in content acquisition costs associated with Pandora Premium and minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers and an increase in rates determined by the Section 115 ruling.

Basis of Presentation and Results of Operations

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three months ended June 30,		Six months ended June 30,	
	2017	2018	2017	2018
Revenue				
Advertising	74 %	70 %	72 %	69 %
Subscription and other	18	30	19	31
Ticketing service	8	—	8	—
Total revenue	100	100	100	100
Cost of revenue				
Cost of revenue—Content acquisition costs	52	59	55	63
Cost of revenue—Other	7	9	8	8
Cost of revenue—Ticketing service	5	—	6	—
Total cost of revenue	65	67	69	72
Gross profit	35	33	31	28
Operating expenses				
Product development	11	10	12	11
Sales and marketing	39	33	39	35
General and administrative	15	14	15	14
Goodwill impairment	35	—	19	—
Contract termination fees	6 %	— %	3 %	— %
Total operating expenses	106	57	88	60
Loss from operations	(71)	(24)	(57)	(31)
Interest expense	(2)	(2)	(2)	(2)
Other income, net	—	—	—	1
Total other expense, net	(2)	(1)	(2)	(1)
Loss before provision for income taxes	(73)	(26)	(59)	(33)
(Provision for) benefit from income taxes	—	2	—	1
Net loss	(73)	(24)	(59)	(32)
Net loss available to common stockholders	(77)%	(26)%	(61)%	(34)%
(1) Includes stock-based compensation as follows:				
Cost of revenue - Other	0.2%	0.2%	0.2%	0.2%
Cost of revenue - Ticketing service	—	—	—	—
Product development	2.5	2.1	2.5	2.1
Sales and marketing	4.0	2.9	4.1	3.3
General and administrative	3.5	2.0	3.0	2.1

Note: Amounts may not recalculate due to rounding

Revenue

	Three months ended June 30,			Six months ended June 30,		
	2017	2018	$ Change	2017	2018	$ Change
	(in thousands)			(in thousands)		
Revenue						
Advertising	$ 278,204	$ 271,056	$ (7,148)	$ 501,512	$ 485,624	$ (15,888)
Subscription and other	68,900	113,738	44,838	133,778	218,403	84,625

Ticketing service	29,730	—	(29,730)	57,548	—	(57,548)
Total revenue	$ 376,834	$ 384,794	$ 7,960	$ 692,838	$ 704,027	$ 11,189

Advertising revenue

We generate advertising revenue in contracts with customers primarily from audio, display and video advertising. We generate the majority of our advertising revenue through the delivery of advertising impressions sold on a cost per thousand basis (“CPM”). We also offer advertising on other bases such as cost per engagement (“CPE”) and cost per view ("CPV"), under which an advertiser pays us based on the number of times a listener engages with an ad. We generally recognize revenues as these deliveries occur. Our contracts for advertising revenues are typically less than twelve months in duration. For the three months ended June 30, 2017 and 2018 and the six months ended June 30, 2017 and 2018, advertising revenue accounted for 74%, 70%, 72% and 69% of our total revenue. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the three months ended June 30, 2018 compared to 2017, advertising revenue decreased $7.1 million or 3%, primarily due to a decrease in ad hours resulting in a a lower number of ads sold and the termination of our services in Australia and New Zealand. This was offset by an increase in the average price per ad due to new advertising products resulting in improved monetization.

For the six months ended June 30, 2018 compared to 2017, advertising revenue decreased $15.9 million or 3%, primarily due to a decrease in the number of ads sold and the termination of our services in Australia and New Zealand, offset by an increase in the average price per ad due to new advertising products resulting in improved monetization.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of monthly or annually paid subscriptions to Pandora Plus and Pandora Premium. The enforceable rights in monthly subscription contracts are the monthly service period, whereas the annual subscriptions are cancelable at any time. For monthly subscriptions where there are no cancellation provisions, we recognize revenue on a straight-line basis over the monthly service term. Because of the cancellation clauses for the annual subscriptions, the duration of these contracts is daily, and revenue for these contracts is recognized on a daily ratable basis. Historically, cancellation rates have been immaterial. For the three months ended June 30, 2017 and 2018 and the six months ended June 30, 2017 and 2018, subscription and other revenue accounted for 18%, 30%, 19% and 31% of our total revenue.

For the three months ended June 30, 2018 compared to 2017, subscription and other revenue increased $44.8 million or 65%, primarily due to an increase in the number of subscribers and an increase in the average price per paid subscriber due to the growth of Pandora Premium.

For the six months ended June 30, 2018 compared to 2017, subscription and other revenue increased $84.6 million or 63%, primarily due to an increase in the number of subscribers and an increase in the average price per paid subscriber due to the launch and growth of Pandora Premium.

Ticketing service

Ticketing service revenue was generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket or a percentage of the total convenience charge and order processing fee for its services at the time the ticket for an event is sold. Ticketing service revenue was recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. For the three and six months ended June 30, 2017, ticketing service revenue accounted for approximately 8% and 8% of our total revenue. There was no ticketing service revenue in the three and six months ended June 30, 2018. Refer to Note 9 "Dispositions" in the Notes to the Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

Costs and Expenses

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue— ticketing. Our operating expenses consist of product development, sales and marketing and general and administrative costs. Cost of revenue—content acquisition costs are the largest component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses.

Cost of revenue—Content acquisition costs

	Three months ended June 30,			Six months ended June 30,		
	2017	2018	$ Change	2017	2018	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Content acquisition costs	$ 195,875	$ 226,860	$ 30,985	$ 383,295	$ 444,440	$ 61,145

Cost of revenue—content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners. We have obtained the rights to stream the majority of sound recordings on our service through direct license agreements, with the costs for such licenses determined according to the terms of each agreement. If we have not entered into a direct license agreement with the copyright owner of a particular sound recording that is streamed on our services, we stream that sound recording pursuant to a statutory license and pay the applicable per play rates set by the CRB. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

The majority of our content acquisition costs were calculated using negotiated rates in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount.

For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings.

For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. § 115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the three months ended June 30, 2018 compared to 2017, content acquisition costs increased $31.0 million or 16% and content acquisition costs as a percentage of total revenue increased from 52% to 59%. The increase is primarily due to an increase in content acquisition costs associated with the growth of Pandora Premium, minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers and, to a lesser degree, an increase in rates determined by the Section 115 ruling.

For the six months ended June 30, 2018 compared to 2017, content acquisition costs increased $61.1 million or 16% and content acquisition costs as a percentage of total revenue increased from 55% to 63%. The increase is primarily due to an increase in content acquisition costs associated with the growth of Pandora Premium, minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers and, to a lesser degree, an increase in rates determined by the Section 115 ruling.

Cost of revenue—Other

	Three months ended June 30,			Six months ended June 30,		
	2017	2018	$ Change	2017	2018	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Other	$ 27,440	$ 32,727	$ 5,287	$ 52,972	$ 59,576	$ 6,604

Cost of revenue—other consists primarily of ad and music serving costs, costs associated with our off-platform revenue, employee-related costs, facilities and equipment costs, other costs of ad sales and amortization expense related to acquired intangible assets and internal-use software. Ad and music serving costs consist of content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Costs associated with our off-platform revenue consist

primarily of costs paid to third party publishers related to revenues generated through the placement of ads on their sites. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are included as part of certain of our advertising arrangements.

For the three months ended June 30, 2018 compared to 2017, cost of revenue—other increased $5.3 million or 19%, primarily due to a $2.1 million increase in expense related to costs associated with our off-platform revenue, increased spend on audience targeting of $1.4 million and a $1.3 million increase in amortization expense of internal-use software related to the launch of Pandora Premium and Premium Access.

For the six months ended June 30, 2018 compared to 2017, cost of revenue—other increased $6.6 million or 12%, primarily due to a $3.3 million increase in amortization expense of internal-use software related to the launch of Pandora Premium and Premium Access, a $2.1 million increase in expense related to costs associated with our off-platform revenue and a $1.2 million increase in hosting and ad serving due to increased spend on audience targeting.

Cost of revenue—Ticketing service

	Three months ended June 30,			Six months ended June 30,		
	2017	2018	$ Change	2017	2018	$ Change
	(in thousands)			(in thousands)		
Cost of revenue—Ticketing service	$ 20,510	$ —	$ (20,510)	$ 39,128	$ —	$ (39,128)

Cost of revenue—ticketing service consisted primarily of ticketing revenue share costs, hosting costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs were related to revenue share costs, which consisted of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense was related to amortization of developed technology acquired in connection with the Ticketfly acquisition. On September 1, 2017, we completed the sale of Ticketfly to Eventbrite. Refer to Note 9 "Dispositions" in the Notes to the Condensed Consolidated Financial Statements for further details on the Ticketfly disposition.

Gross margin

	Three months ended June 30,			Six months ended June 30,		
	2017	2018	$ Change	2017	2018	$ Change
	(in thousands)			(in thousands)		
Gross profit						
Total revenue	$ 376,834	$ 384,794	$ 7,960	$ 692,838	$ 704,027	$ 11,189
Total cost of revenue	243,825	259,587	15,762	475,395	504,016	28,621
Gross profit	$ 133,009	$ 125,207	$ (7,802)	$ 217,443	$ 200,011	$ (17,432)
Gross margin	35%	33%		31%	28%	

For the three months ended June 30, 2018 compared to 2017, gross margin decreased from 35% to 33%. The decrease is primarily due to an increase in content acquisition costs associated with the growth of Pandora Premium, minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers and, to a lesser degree, an increase in rates determined by the Section 115 ruling.

For the six months ended June 30, 2018 compared to 2017, gross margin decreased from 31% to 28%. The decrease is primarily due to an increase in content acquisition costs associated with the growth of Pandora Premium, minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, PROs and publishers and, to a lesser degree, an increase in rates determined by the Section 115 ruling.

Product development

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Pandora Media, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANDORA MEDIA, INC.

Date: July 31, 2018

By: /s/ Naveen Chopra
Naveen Chopra
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1221 Avenue of the Americas, 35th Floor, New York, NY
(Address of Principal Executive Offices)
10020
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2019 was $7,370,915,284. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

The number of shares of the registrant's common stock outstanding as of January 31, 2020 was 4,413,944,475.

DOCUMENTS INCORPORATED BY REFERENCE

Information included in our definitive proxy statement for our 2020 annual meeting of stockholders scheduled to be held on Thursday, June 4, 2020 is incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this report.

(the "Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code, including, accelerated depreciation that will allow for full expensing of qualified property. The Tax Act also reduced the U.S. federal corporate income tax rate from 35% to 21%.

Our effective tax rate of 17.2% for the year ended December 31, 2018 was primarily impacted by the reduced federal tax rate to 21%, the recognition of excess tax benefits related to share based compensation and a benefit related to state and federal research and development credits. Our effective tax rate of 48.7% for the year ended December 31, 2017 was negatively impacted by the revaluation of our net deferred tax assets, excluding after tax credits, as of December 31, 2017 as a result of the reduction of the federal corporate income tax rate. This was offset by the recognition of excess tax benefits related to share based compensation and a benefit related to federal research and development credits, under the Protecting Americans from Tax Hikes Act of 2015. Based on this revaluation, we recorded an additional tax expense of $185 to reduce our net deferred tax asset balance for the year ended December 31, 2017.

Unaudited Pro Forma Results

Set forth below are our pro forma results of operations for the year ended December 31, 2019 compared with the year ended December 31, 2018 and for the year ended December 31, 2018 compared with the year ended December 31, 2017. These pro forma results are based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had the Pandora Acquisition actually occurred on January 1, 2017 and are not indicative of our consolidated results of operations in future periods. The pro forma results primarily include adjustments related to amortization of acquired intangible assets, depreciation of property and equipment, acquisition costs, fair value gain or loss on the Pandora investment and associated tax impacts. Please refer to the Footnotes to Results of Operations (pages 45 through 50) following our discussion of results of operations.

	For the Years Ended December 31,			2019 vs 2018 Change		2018 vs 2017 Change	
	2019	2018	2017	Amount	%	Amount	%
Revenue	(Pro Forma)	(Pro Forma)	(Pro Forma)				
Sirius XM:							
Subscriber revenue	$ 5,644	$ 5,264	$ 4,990	$ 380	7 %	$ 274	5 %
Advertising revenue	205	188	160	17	9 %	28	18 %
Equipment revenue	173	155	132	18	12 %	23	17 %
Other revenue	172	171	150	1	1 %	21	14 %
Total Sirius XM revenue	6,194	5,778	5,432	416	7 %	346	6 %
Pandora:							
Subscriber revenue	527	478	315	49	10 %	163	52 %
Advertising revenue	1,200	1,092	1,071	108	10 %	21	2 %
Total Pandora revenue	1,727	1,570	1,386	157	10 %	184	13 %
Total consolidated revenue	7,921	7,348	6,818	573	8 %	530	8 %
Cost of services							
Sirius XM:							
Revenue share and royalties	1,431	1,394	1,210	37	3 %	184	15 %
Programming and content	444	406	388	38	9 %	18	5 %
Customer service and billing	398	382	385	16	4 %	(3)	(1)%
Transmission	112	96	83	16	17 %	13	16 %
Cost of equipment	29	31	35	(2)	(6)%	(4)	(11)%
Total Sirius XM cost of services	2,414	2,309	2,101	105	5 %	208	10 %
Pandora:							
Revenue share and royalties	945	929	826	16	2 %	103	12 %
Programming and content	18	11	14	7	64 %	(3)	(21)%
Customer service and billing	85	95	66	(10)	(11)%	29	44 %
Transmission	63	50	48	13	26 %	2	4 %
Total Pandora cost of services	1,111	1,085	954	26	2 %	131	14 %
Total consolidated cost of services	3,525	3,394	3,055	131	4 %	339	11 %
Subscriber acquisition costs	427	470	499	(43)	(9)%	(29)	(6)%
Sales and marketing	973	883	799	90	10 %	84	11 %
Engineering, design and development	294	266	228	28	11 %	38	17 %
General and administrative	540	517	528	23	4 %	(11)	(2)%
Depreciation and amortization	483	465	452	18	4 %	13	3 %
Total operating expenses	6,242	5,995	5,561	247	4 %	434	8 %
Income from operations	1,679	1,353	1,257	326	24 %	96	8 %
Other (expense) income:							
Interest expense	(392)	(377)	(375)	(15)	(4)%	(2)	(1)%
Loss on extinguishment of debt	(57)	(17)	(53)	(40)	(235)%	36	68 %
Other (expense) income	(2)	8	16	(10)	(125)%	(8)	(50)%
Total other (expense) income	(451)	(386)	(412)	(65)	(17)%	26	6 %
Income before income taxes	1,228	967	845	261	27 %	122	14 %
Income tax expense	(290)	(123)	(510)	(167)	(136)%	387	76 %
Net income	$ 938	$ 844	$ 335	$ 94	11 %	$ 509	152 %
Adjusted EBITDA	$ 2,427	$ 2,131	$ 2,006	$ 296	14 %	$ 125	6 %

nm - not meaningful

Sirius XM Revenue

Sirius XM Subscriber Revenue includes fees charged for self-pay and paid promotional subscriptions, U.S. Music Royalty Fees and other ancillary fees.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, subscriber revenue was $5,644 and $5,264, respectively, an increase of 7%, or $380. The increase was primarily driven by higher U.S. Music Royalty Fees due to a higher music royalty rate, higher self-pay subscription revenue as a result of a 3% increase in the daily weighted average number of subscribers and higher revenue from our connected vehicle services.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, subscriber revenue was $5,264 and $4,990, respectively, an increase of 5%, or $274. The increase was primarily driven by higher U.S. Music Royalty Fees due to a higher music royalty rate and higher self-pay subscription revenue as a result of a 5% increase in the daily weighted average number of subscribers. Subscriber revenue was negatively impacted by $95 for the year ended December 31, 2018 due to the adoption of Accounting Standards Update ("ASU") 2014-09, effective January 1, 2018.

We expect subscriber revenues to increase based on the growth of our subscriber base, increases in the average price charged and the sale of additional services to subscribers.

Sirius XM Advertising Revenue includes the sale of advertising on Sirius XM's non-music channels.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, advertising revenue was $205 and $188, respectively, an increase of 9%, or $17. The increase was primarily due to a greater number of advertising spots sold and transmitted as well as increases in rates charged per spot.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, advertising revenue was $188 and $160, respectively, an increase of 18%, or $28. The increase was primarily due to a greater number of advertising spots sold and transmitted as well as increases in rates charged per spot.

We expect our Sirius XM advertising revenue to continue to grow as more advertisers are attracted to our national platform and growing subscriber base.

Sirius XM Equipment Revenue includes revenue and royalties from the sale of satellite radios, components and accessories.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, equipment revenue was $173 and $155, respectively, an increase of 12%, or $18. The increase was driven by an increase in royalty revenue due to our transition to a new generation of chipsets.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, equipment revenue was $155 and $132, respectively, an increase of 17%, or $23. The increase was driven by an increase in royalty revenue due to our transition to a new generation of chipsets.

We expect equipment revenue to increase as royalty revenue associated with certain new chipsets increases.

Sirius XM Other Revenue includes service and advisory revenue from our Sirius XM Canada, our connected vehicle services, and ancillary revenues.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, other revenue was $172 and $171, respectively, an increase of 1%, or $1. The increase was primarily driven by higher royalty revenue generated from Sirius XM Canada, partially offset by a decrease in data usage revenue generated from our connected vehicle services.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, other revenue was $171 and $150, respectively, an increase of 14%, or $21. The increase was primarily driven by higher revenue generated from our connected vehicle services and from Sirius XM Canada.

We expect other revenue to increase due to additional revenues generated from our connected vehicle services.

Pandora Revenue

Pandora Subscriber Revenue includes fees charged for Pandora Plus and Pandora Premium subscriptions.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, Pandora subscriber revenue was $527 and $478, respectively, an increase of 10%, or $49. The increase was primarily due to a greater weighted average number of subscribers and an increase in the average price per paid subscriber due to the growth of Pandora Premium.
- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, Pandora subscriber revenue was $478 and $315, respectively, an increase of 52%, or $163. The increase was primarily due to an increase in the weighted average number of subscribers and an increase in the average price per paid subscriber due to the growth of Pandora Premium.

We expect Pandora subscriber revenues to increase with the growth in our Pandora subscriber base.

Pandora Advertising Revenue is generated primarily from audio, display and video advertising.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, Pandora advertising revenue was $1,200 and $1,092, respectively, an increase of 10%, or $108. The increase was primarily due to growth in our off-platform advertising revenue, increased sell-through percentage, increases in the average price per ad and revenue growth in the AdsWizz business.
- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, Pandora advertising revenue was $1,092 and $1,071, respectively, an increase of 2%, or $21. The increase was primarily due to increases in the average price per ad and increases in our off-platform revenue.

We expect our Pandora advertising revenue to continue to increase due to our off-platform advertising opportunities.

Total Consolidated Revenue

Total Consolidated Revenue for the years ended December 31, 2019 and 2018, was $7,921 and $7,348, respectively, an increase of 8%, or $573. Total Consolidated Revenue for the years ended December 31, 2018 and 2017, was $7,348 and $6,818, respectively, an increase of 8%, or $530.

Sirius XM Cost of Services

Sirius XM Cost of Services includes revenue share and royalties, programming and content, customer service and billing and transmission expenses.

Sirius XM Revenue Share and Royalties include royalties for transmitting content, including streaming royalties, as well as automaker, content provider and advertising revenue share.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, revenue share and royalties were $1,431 and $1,394, respectively, an increase of 3%, or $37, but decreased as a percentage of total Sirius XM revenue. The increase was driven by overall greater revenues subject to royalties and revenue share. The increase was partially offset by a $69 charge during the second quarter of 2018 related to the legal settlement that resolved all outstanding claims, including ongoing audits, under Sirius XM's statutory license for sound recordings for the period January 1, 2007 through December 31, 2017.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, revenue share and royalties were $1,394 and $1,210, respectively, an increase of 15%, or $184, and increased as a percentage of total Sirius XM revenue. The increase was driven by an increase in the statutory royalty rate applicable to our use of post-1972 recordings, which increased from 11% in 2017 to 15.5% in 2018, and overall greater revenues subject to revenue share with the automakers. Included in the increase was a $69 charge related to the legal settlement that resolved outstanding claims, including ongoing audits, under our statutory license for sound recordings for the period January 1, 2007 through December 31, 2017. In 2017, we recorded $45 of expense related to music royalty legal settlements and related reserves. The increase was partially offset by approximately $88 for the year ended December 31, 2018, related to the adoption of ASU 2014-09, which established Accounting Standard Codification (ASC) Topic 606, *Revenue - Revenue from Contracts with Customers,* effective as of January 1, 2018.

We expect our Sirius XM revenue share and royalty costs to increase as our revenues grow.

Sirius XM Programming and Content includes costs to acquire, create, promote and produce content. We have entered into various agreements with third parties for music and non-music programming that require us to pay license fees and other amounts.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, programming and content expenses were $444 and $406, respectively, an increase of 9%, or $38, and increased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher content licensing costs as well as greater personnel-related costs.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, programming and content expenses were $406 and $388, respectively, an increase of 5%, or $18, but decreased as a percentage of total Sirius XM revenue. The increase was driven primarily by personnel-related costs, and higher music licensing costs.

We expect our Sirius XM programming and content expenses to increase as we offer additional programming and renew or replace expiring agreements.

Sirius XM Customer Service and Billing includes costs associated with the operation and management of internal and third party customer service centers, and our subscriber management systems as well as billing and collection costs, bad debt expense, and transaction fees.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, customer service and billing expenses were $398 and $382, respectively, an increase of 4%, or $16, but decreased as a percentage of total Sirius XM revenue. The increase was driven by increased transaction fees from a larger subscriber base and higher bad debt expense.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, customer service and billing expenses were $382 and $385, respectively, a decrease of 1%, or $3, and decreased as a percentage of total Sirius XM revenue. The decrease was primarily driven by lower call center costs due to lower agent rates, increased customer self-service and improved non-pay processes driving lower bad debt expense, partially offset by increased transaction fees from a larger subscriber base and personnel-related costs.

We expect our Sirius XM customer service and billing expenses to increase as our subscriber base grows.

Sirius XM Transmission consists of costs associated with the operation and maintenance of our terrestrial repeater networks; satellites; satellite telemetry, tracking and control systems; satellite uplink facilities; studios; and delivery of our Internet streaming and connected vehicle services.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, transmission expenses were $112 and $96, respectively, an increase of 17%, or $16, and increased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher cloud hosting and costs associated with our streaming services and higher repeater network costs.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, transmission expenses were $96 and $83, respectively, an increase of 16%, or $13, and increased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher wireless costs associated with our connected vehicle services and higher streaming costs.

We expect our Sirius XM transmission expenses to increase as costs associated with our investments in streaming grow.

Sirius XM Cost of Equipment includes costs from the sale of satellite radios, components and accessories and provisions for inventory allowance attributable to products purchased for resale in our direct to consumer distribution channels.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, cost of equipment was $29 and $31, respectively, a decrease of 6%, or $2, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct sales to satellite radio and connected vehicle consumers, partially offset by an increase in our inventory reserve.

- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, cost of equipment was $31 and $35, respectively, a decrease of 11%, or $4, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct satellite radio sales to consumers.

We expect our Sirius XM cost of equipment to fluctuate primarily as a result of sales of satellite radios and connected vehicle devices.

Pandora Cost of Services

Pandora Cost of Services includes revenue share and royalties, programming and content, customer service and billing, and transmission expenses.

Pandora Revenue Share and Royalties includes licensing fees paid for streaming music or other content to our subscribers and listeners as well as revenue share paid to third party ad servers. We make payments to third party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of service in the related period.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, revenue share and royalties were $945 and $929, respectively, an increase of 2%, or $16, but decreased as a percentage of total Pandora revenue. The increase was primarily attributable to higher revenue share driven by growth of our off platform revenue, partially offset by lower royalty costs resulting from renegotiated agreements with record labels, music and sound recording copyright holders and distributors.
- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, revenue share and royalties were $929 and $826, respectively, an increase of 12%, or $103, but decreased as a percentage of total Pandora revenue. The increase was due to minimum guarantee accruals related to our direct license agreements with major and independent labels, distributors, performing rights organizations and publishers.

We expect our Pandora revenue share and royalty costs to increase as off-platform revenue increases.

Pandora Programming and Content includes costs to produce live listener events and promote content.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, programming and content expenses were $18 and $11, respectively, an increase of 64%, or $7, and increased as a percentage of total Pandora revenue. The increase was primarily attributable to higher personnel-related and content costs.
- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, programming and content expenses were $11 and $14, respectively, a decrease of 21%, or $3, and decreased as a percentage of total Pandora revenue. The decrease was primarily attributable to lower content costs.

We expect our Pandora programming and content costs to increase as we offer additional programming and continue to produce live listener events and promote content.

Pandora Customer Service and Billing includes transaction fees on subscription purchases through mobile app stores and bad debt expense.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, customer service and billing expenses were $85 and $95, respectively, a decrease of 11%, or $10, and decreased as a percentage of total Pandora revenue. The decrease was primarily driven by lower bad debt expense due to recoveries and lower transaction fees.
- *2018 vs. 2017*: For the years ended December 31, 2018 and 2017, customer service and billing expenses were $95 and $66, respectively, an increase of 44%, or $29, and increased as a percentage of total Pandora revenue. The increase was primarily driven by higher transaction fees and bad debt expense from higher average subscriber balances.

We expect our Pandora customer service and billing costs to increase as our subscriber base grows.

Pandora Transmission includes costs associated with content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, transmission expenses were $63 and $50, respectively, an increase of 26%, or $13, and increased as a percentage of total Pandora revenue. The increase was primarily driven by web hosting and personnel-related costs.

positions are recognized in Other long-term liabilities which, as of December 31, 2019 and 2018, were $12 and $9, respectively, including accrued interest. No penalties have been accrued.

We have state income tax audits pending. We do not expect the ultimate outcome of these audits to have a material adverse effect on our financial position or results of operations. We also do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2019 will significantly increase or decrease during the year ending December 31, 2020. Various events could cause our current expectations to change. Should our position with respect to the majority of these uncertain tax positions be upheld, the effect would be recorded in our consolidated statements of comprehensive income as part of the income tax provision. We recorded interest expense of $2 and $1 for the years ended December 31, 2019 and 2018, respectively, related to unrecognized tax benefits.

Changes in our uncertain income tax positions, from January 1 through December 31 are set forth below:

	2019	2018
Balance, beginning of year	$ 387	$ 334
Increases in tax positions for prior years	—	65
Increases in tax positions for current years	31	15
Decreases in tax positions for prior years	(12)	(27)
Balance, end of year	$ 406	$ 387

(18) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The change in segment reporting was due to the acquisition of Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. We report our segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during the year ended December 31, 2019.

Segment revenue and gross profit were as follows during the period presented:

	For the Year Ended December 31, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 5,644	$ 476	$ 6,120
Advertising revenue	205	1,131	1,336
Equipment revenue	173	—	173
Other revenue	165	—	165
Total revenue	6,187	1,607	7,794
Cost of services [(a)]	(2,378)	(1,005)	(3,383)
Segment gross profit	$ 3,809	$ 602	$ 4,411

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Year Ended December 31, 2019
Segment Gross Profit	$ 4,411
Subscriber acquisition costs	(427)
Sales and marketing [(a)]	(859)
Engineering, design and development [(a)]	(231)
General and administrative [(a)]	(466)
Depreciation and amortization	(468)
Share-based payment expense	(229)
Acquisition and other related costs	(84)
Total other (expense) income	(450)
Consolidated income before income taxes	$ 1,197

(a) Share-based payment expense of $44 related to cost of services, $78 related to sales and marketing, $49 related to engineering, design and development and $58 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of December 31, 2019, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the year ended December 31, 2019.

(19) Subsequent Events

Capital Return Program

On January 30, 2020, our board of directors declared a quarterly dividend on our common stock in the amount of $0.01331 per share of common stock payable on February 28, 2020 to stockholders of record as of the close of business on February 12, 2020.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Meyer, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

February 4, 2020

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

February 4, 2020

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Annual Report of Sirius XM Holdings Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAMES E. MEYER

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

February 4, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Annual Report of Sirius XM Holdings Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

February 4, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1221 Avenue of the Americas, 35th Floor, New York, NY
(Address of Principal Executive Offices)
10020
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2020 was $6,902,732,943. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

The number of shares of the registrant's common stock outstanding as of January 29, 2021 was 4,139,978,947.

DOCUMENTS INCORPORATED BY REFERENCE

Information included in our definitive proxy statement for our 2021 annual meeting of stockholders scheduled to be held on Thursday, June 3, 2021 is incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this report.

Results of Operations

Actual Results

Set forth below are our results of operations for the year ended December 31, 2020 compared with the year ended December 31, 2019 and for the year ended December 31, 2019 compared with the year ended December 31, 2018. The discussion of our results of operations for the year ended December 31, 2020 includes the financial results of Pandora for the entire period, while the results of operations for the year ended December 31, 2019 includes the financial results of Pandora from the date of the Pandora Acquisition, February 1, 2019. The inclusion of Pandora's results in the year ended December 31, 2020 for the entire period may render direct comparisons with results for prior year period less meaningful. The results of operations are presented for each of our reporting segments for revenue and cost of services and on a consolidated basis for all other items.

	For the Years Ended December 31,			2020 vs 2019 Change		2019 vs 2018 Change	
	2020	2019	2018	Amount	%	Amount	%
Revenue							
Sirius XM:							
Subscriber revenue	$ 5,857	$ 5,644	$ 5,264	$ 213	4 %	$ 380	7 %
Advertising revenue	157	205	188	(48)	(23)%	17	9 %
Equipment revenue	173	173	155	—	— %	18	12 %
Other revenue	155	165	164	(10)	(6)%	1	1 %
Total Sirius XM revenue	6,342	6,187	5,771	155	3 %	416	7 %
Pandora:							
Subscriber revenue	515	476	—	39	8 %	476	nm
Advertising revenue	1,183	1,131	—	52	5 %	1,131	nm
Total Pandora revenue	1,698	1,607	—	91	6 %	1,607	nm
Total consolidated revenue	8,040	7,794	5,771	246	3 %	2,023	35 %
Cost of services							
Sirius XM:							
Revenue share and royalties	1,484	1,431	1,394	53	4 %	37	3 %
Programming and content	449	444	406	5	1 %	38	9 %
Customer service and billing	394	398	382	(4)	(1)%	16	4 %
Transmission	123	112	96	11	10 %	16	17 %
Cost of equipment	19	29	31	(10)	(34)%	(2)	(6)%
Total Sirius XM cost of services	2,469	2,414	2,309	55	2 %	105	5 %
Pandora:							
Revenue share and royalties	937	860	—	77	9 %	860	nm
Programming and content	32	18	—	14	78 %	18	nm
Customer service and billing	87	77	—	10	13 %	77	nm
Transmission	54	58	—	(4)	(7)%	58	nm
Total Pandora cost of services	1,110	1,013	—	97	10 %	1,013	nm
Total consolidated cost of services	3,579	3,427	2,309	152	4 %	1,118	48 %
Subscriber acquisition costs	362	427	470	(65)	(15)%	(43)	(9)%
Sales and marketing	957	937	484	20	2 %	453	94 %
Engineering, design and development	263	280	123	(17)	(6)%	157	128 %
General and administrative	511	524	354	(13)	(2)%	170	48 %
Depreciation and amortization	506	468	301	38	8 %	167	55 %
Acquisition and restructuring costs	28	84	3	(56)	(67)%	81	nm
Impairment charges	976	—	—	976	nm	—	nm
Total operating expenses	7,182	6,147	4,044	1,035	17 %	2,103	52 %
Income from operations	858	1,647	1,727	(789)	(48)%	(80)	(5)%
Other (expense) income:							
Interest expense	(394)	(390)	(350)	(4)	(1)%	(40)	(11)%
Loss on extinguishment of debt	(40)	(57)	—	17	30 %	(57)	nm
Other income (expense)	6	(3)	44	9	300 %	(47)	(107)%
Total other (expense) income	(428)	(450)	(306)	22	5 %	(144)	(47)%
Income before income taxes	430	1,197	1,421	(767)	(64)%	(224)	(16)%
Income tax expense	(299)	(283)	(245)	(16)	(6)%	(38)	(16)%
Net income	$ 131	$ 914	$ 1,176	$ (783)	(86)%	$ (262)	(22)%

nm - not meaningful

Sirius XM Revenue

Refer to page 42 for our discussion on Sirius XM revenue.

Pandora Revenue

The year ended December 31, 2020 includes Pandora's revenue for the entire period while the year ended December 31, 2019 includes Pandora's revenue from the acquisition date, February 1, 2019. Refer to page 43 for our discussion on Pandora revenue.

Sirius XM Cost of Services

Refer to page 43 for our discussion on Sirius XM cost of services.

Pandora Cost of Services

The year ended December 31, 2020 includes Pandora's cost of services for the entire period while the year ended December 31, 2019 includes Pandora's cost of services from the acquisition date, February 1, 2019. Refer to page 45 for our discussion on Pandora cost of services.

Operating Costs

Subscriber Acquisition Costs are costs associated with our satellite radio service and include hardware subsidies paid to radio manufacturers, distributors and automakers; subsidies paid for chipsets and certain other components used in manufacturing radios; device royalties for certain radios and chipsets; product warranty obligations; and freight. The majority of subscriber acquisition costs are incurred and expensed in advance of acquiring a subscriber. Subscriber acquisition costs do not include advertising costs, marketing, loyalty payments to distributors and dealers of satellite radios or revenue share payments to automakers and retailers of satellite radios.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, subscriber acquisition costs were $362 and $427, respectively, a decrease of 15%, or $65, and decreased as a percentage of total revenue. The decrease was driven by a decline in OEM installations as a result of the COVID-19 pandemic as well as lower hardware subsidies as certain subsidy rates decreased.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, subscriber acquisition costs were $427 and $470, respectively, a decrease of 9%, or $43, and decreased as a percentage of total revenue. The decrease was driven by reductions to OEM hardware subsidy rates, lower subsidized costs related to the transition of chipsets, and a decrease in the volume of satellite radio installations.

We expect subscriber acquisition costs to fluctuate with OEM installations; however, the subsidized chipsets cost is expected to decline as we transition to a new generation of chipsets. We intend to continue to offer subsidies and other incentives to induce OEMs to include our technology in their vehicles.

Sales and Marketing includes costs for marketing, advertising, media and production, including promotional events and sponsorships; cooperative and artist marketing; and personnel related costs including salaries, commissions, and sales support. Marketing costs include expenses related to direct mail, outbound telemarketing, email communications, social media, television and digital performance media.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, sales and marketing expenses were $957 and $937, respectively, an increase of 2%, or $20, and decreased as a percentage of total revenue. The increase was primarily due to the inclusion of Pandora for a full twelve months in 2020, and additional subscriber communications and acquisition campaigns; partially offset by lower travel, entertainment and personnel-related costs.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, sales and marketing expenses were $937 and $484, respectively, an increase of 94%, or $453, and increased as a percentage of total revenue. The increase was primarily due to the inclusion of Pandora, and additional subscriber communications and acquisition campaigns.

We anticipate that sales and marketing expenses will increase with growth in our trial subscriber base, as we expand programs to retain our existing subscribers, win back former subscribers, attract new subscribers and listeners, and as we grow advertising revenue.

Engineering, Design and Development consists primarily of compensation and related costs to develop chipsets and new products and services, including streaming and connected vehicle services, research and development for broadcast information systems and the design and development costs to incorporate Sirius XM radios into new vehicles manufactured by automakers.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, engineering, design and development expenses were $263 and $280, respectively, a decrease of 6%, or $17, and decreased as a percentage of total revenue. The decrease was driven primarily by lower personnel-related costs, partially offset by the inclusion of Pandora for a full twelve months in 2020.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, engineering, design and development expenses were $280 and $123, respectively, an increase of 128%, or $157, and increased as a percentage of total revenue. The increase was driven primarily by the inclusion of Pandora.

We expect engineering, design and development expenses to increase in future periods as we continue to develop our infrastructure, products and services.

General and Administrative primarily consists of compensation and related costs for personnel and facilities, and include costs related to our finance, legal, human resources and information technologies departments.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, general and administrative expenses were $511 and $524, respectively, a decrease of 2%, or $13, and decreased as a percentage of total revenue. The decrease was driven by a one-time $25 legal settlement associated with Do-Not-Call litigation recorded in the first quarter of 2019, lower personnel-related costs, the closure of a sales and use tax audit in the second quarter of 2020, and lower travel and entertainment costs, partially offset by the inclusion of Pandora for a full twelve months in 2020, a $25 million contribution to a donor advised fund that will be the source of our future charitable donations, and higher legal costs.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, general and administrative expenses were $524 and $354, respectively, an increase of 48%, or $170, and increased as a percentage of total revenue. The increase was driven by the inclusion of Pandora and by a $25 legal settlement associated with Do-Not-Call litigation.

We expect our general and administrative expenses to remain relatively flat.

Depreciation and Amortization represents the recognition in earnings of the cost of assets used in operations, including our satellite constellations, property, equipment and intangible assets, over their estimated service lives.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, depreciation and amortization expense was $506 and $468, respectively, an increase of 8%, or $38, and increased as a percentage of total revenue. The increase was driven by additional assets placed in-service and the inclusion of Pandora for a full twelve months in 2020.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, depreciation and amortization expense was $468 and $301, respectively, an increase of 55%, or $167, and increased as a percentage of total revenue. The increase was driven by the amortization of definite life intangibles resulting from the Pandora Acquisition and higher depreciation costs related to additional assets placed in-service.

Acquisition and Restructuring Costs represents expenses associated with the acquisitions of Pandora, Simplecast and Stitcher and restructuring costs.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, acquisition and restructuring costs were $28 and $84, respectively.

- 2019 vs. 2018: For the years ended December 31, 2019 and 2018, acquisition and other related costs were $84 and $3, respectively.

Impairment Charges represents the amount by which the carrying amount of an asset exceeds the asset's fair value.

- *2020 vs. 2019*: For the year ended December 31, 2020, impairment charge was $976. We recorded a goodwill impairment charge of $956 during the year ended December 31, 2020 to reflect the carrying amount of the Pandora goodwill and an impairment charge of $20 to write down the carrying value of our Pandora trademark. We did not record an impairment charge in 2019 or 2018.

Other Income (Expense)

Interest Expense includes interest on outstanding debt.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, interest expense was $394 and $390, respectively, an increase of 1%, or $4. The increase was primarily driven by higher average debt due to the issuances of Sirius XM's 5.500% Senior Notes due 2029, 4.625% Senior Notes due 2024 in 2019, and 4.125% Senior Notes due 2030 in 2020; partially offset by the redemption of Sirius XM's 6.00% Senior Notes due 2024, redemption of the Pandora convertible notes in 2019, a lower average outstanding balance under the Credit Facility, and lower interest rates.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, interest expense was $390 and $350, respectively, an increase of 11%, or $40. The increase was primarily driven by higher average debt due to the issuances of Sirius XM's 5.500% Senior Notes due 2029 and 4.625% Senior Notes due 2024 as well as the inclusion of Pandora debt, partially offset by the redemption of Sirius XM's 6.00% Senior Notes due 2024, lower interest rates and an increase in capitalized interest associated with construction of new satellites.

Loss on Extinguishment of Debt includes losses incurred as a result of the redemption of certain debt.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, loss on extinguishment of debt was $40 and $57, respectively. The loss on extinguishment of debt recorded in 2020 was due to the redemption of $500 principal amount of Sirius XM's 4.625% Senior Notes due 2023 and $1,000 principal amount of Sirius XM's 5.375% Senior Notes due 2025. The loss recorded in 2019 was due to the redemption of $1,500 in principal amount of Sirius XM's 6.00% Senior Notes due 2024 and the repurchase of $151 in principal amount of Pandora's 1.75% Convertible Senior Notes due 2020.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, loss on extinguishment of debt was $57 and $0, respectively. During the year ended December 31, 2019, we recorded losses due to the redemption of $1,500 in principal amount of Sirius XM's 6.00% Senior Notes due 2024 and the repurchase of $151 in principal amount of Pandora's 1.75% Convertible Senior Notes due 2020. There was no loss on extinguishment of debt in 2018.

Other Income (Expense) primarily includes realized and unrealized gains and losses from our Deferred Compensation Plan and other investments, interest and dividend income, our share of the income or loss from equity investments in Sirius XM Canada and SoundCloud, and transaction costs related to non-operating investments.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, other income (expense) was $6 and $(3), respectively. Other income for the year ended December 31, 2020 was driven by a one-time lawsuit settlement of $7. Other expense for the year ended December 31, 2019 was driven by losses on other investments of $21; partially offset by interest earned on our loan to Sirius XM Canada of $10, trading gains associated with the investments held for our Deferred Compensation Plan of $4 and interest income of $3.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, other (expense) income was $(3) and $44, respectively. Other expense for the year ended December 31, 2019 was driven by losses on other investments of $21; partially offset by interest earned on our loan to Sirius XM Canada of $10, trading gains associated with the investments held for our Deferred Compensation Plan of $4 and interest income of $3. Other income for the year ended December 31, 2018 was driven by unrealized gains of $43 from a fair value adjustment of our investment in Pandora, and interest earned on our loan to Sirius XM Canada of $10, partially offset by losses on other investments of $10.

Income Taxes

Income Tax Expense includes the change in our deferred tax assets, current federal and state tax expenses, and foreign withholding taxes.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, income tax expense was $299 and $283, respectively, and our effective tax rate was 69.5% and 23.6%, respectively.

  Our effective tax rate of 69.5% for the year ended December 31, 2020 was primarily impacted by the nondeductible Pandora goodwill impairment charge, partially offset by the recognition of excess tax benefits related to share-based compensation, a benefit related to state and federal research and development and certain other credits and a worthless stock deduction associated with the termination of the Automatic service. Our effective tax rate of 23.6% for the year ended December 31, 2019 was primarily impacted by the recognition of excess tax benefits related to share-based compensation and benefits related to state and federal research and development and certain other credits, partially offset by the impact of nondeductible compensation.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, income tax expense was $283 and $245, respectively, and our effective tax rate was 23.6% and 17.2%, respectively.

  Our effective tax rate of 23.6% for the year ended December 31, 2019 was primarily impacted by the recognition of excess tax benefits related to share-based compensation and benefits related to state and federal research and development and certain other credits, partially offset by the impact of nondeductible compensation. Our effective tax rate of 17.2% for the year ended December 31, 2018 was primarily impacted by the recognition of excess tax benefits related to share based compensation and a benefit related to state and federal research and development credits.

Unaudited Pro Forma Results

Set forth below are our pro forma results of operations for the year ended December 31, 2020 compared with the year ended December 31, 2019 and for the year ended December 31, 2019 compared with the year ended December 31, 2018. These pro forma results are based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had the Pandora Acquisition actually occurred on January 1, 2018 and are not indicative of our consolidated results of operations in future periods. The pro forma results primarily include adjustments related to amortization of acquired intangible assets, depreciation of property and equipment, acquisition costs, fair value gain or loss on the Pandora investment and associated tax impacts. Pro forma adjustments are not included for the acquisitions of Simplecast and Stitcher. Please refer to the Footnotes to Results of Operations (pages 49 through 53) following our discussion of results of operations.

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	For the Years Ended December 31,			2020 vs 2019 Change		2019 vs 2018 Change	
	2020	2019	2018	Amount	%	Amount	%
Revenue	(Pro Forma)	(Pro Forma)	(Pro Forma)				
Sirius XM:							
Subscriber revenue	$ 5,857	$ 5,644	$ 5,264	$ 213	4 %	$ 380	7 %
Advertising revenue	157	205	188	(48)	(23)%	17	9 %
Equipment revenue	173	173	155	—	— %	18	12 %
Other revenue	161	172	171	(11)	(6)%	1	1 %
Total Sirius XM revenue	6,348	6,194	5,778	154	2 %	416	7 %
Pandora:							
Subscriber revenue	515	527	478	(12)	(2)%	49	10 %
Advertising revenue	1,183	1,200	1,092	(17)	(1)%	108	10 %
Total Pandora revenue	1,698	1,727	1,570	(29)	(2)%	157	10 %
Total consolidated revenue	8,046	7,921	7,348	125	2 %	573	8 %
Cost of services							
Sirius XM:							
Revenue share and royalties	1,484	1,431	1,394	53	4 %	37	3 %
Programming and content	449	444	406	5	1 %	38	9 %
Customer service and billing	394	398	382	(4)	(1)%	16	4 %
Transmission	123	112	96	11	10 %	16	17 %
Cost of equipment	19	29	31	(10)	(34)%	(2)	(6)%
Total Sirius XM cost of services	2,469	2,414	2,309	55	2 %	105	5 %
Pandora:							
Revenue share and royalties	943	945	929	(2)	— %	16	2 %
Programming and content	32	18	11	14	78 %	7	64 %
Customer service and billing	87	85	95	2	2 %	(10)	(11)%
Transmission	54	63	50	(9)	(14)%	13	26 %
Total Pandora cost of services	1,116	1,111	1,085	5	— %	26	2 %
Total consolidated cost of services	3,585	3,525	3,394	60	2 %	131	4 %
Subscriber acquisition costs	362	427	470	(65)	(15)%	(43)	(9)%
Sales and marketing	957	973	883	(16)	(2)%	90	10 %
Engineering, design and development	263	294	266	(31)	(11)%	28	11 %
General and administrative	511	540	517	(29)	(5)%	23	4 %
Depreciation and amortization	506	483	465	23	5 %	18	4 %
Acquisition and restructuring costs	28	—	—	28	nm	—	nm
Impairment charges	976	—	—	976	nm	—	nm
Total operating expenses	7,188	6,242	5,995	946	15 %	247	4 %
Income from operations	858	1,679	1,353	(821)	(49)%	326	24 %
Other (expense) income:							
Interest expense	(394)	(392)	(377)	(2)	(1)%	(15)	(4)%
Loss on extinguishment of debt	(40)	(57)	(17)	17	30 %	(40)	(235)%
Other income (expense)	6	(2)	8	8	400 %	(10)	(125)%
Total other (expense) income	(428)	(451)	(386)	23	5 %	(65)	(17)%
Income before income taxes	430	1,228	967	(798)	(65)%	261	27 %
Income tax expense	(299)	(290)	(123)	(9)	(3)%	(167)	(136)%
Net income	$ 131	$ 938	$ 844	$ (807)	(86)%	$ 94	11 %
Adjusted EBITDA	$ 2,575	$ 2,427	$ 2,131	$ 148	6 %	$ 296	14 %

nm - not meaningful

Sirius XM Revenue

Sirius XM Subscriber Revenue includes fees charged for self-pay and paid promotional subscriptions, U.S. Music Royalty Fees and other ancillary fees.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, subscriber revenue was $5,857 and $5,644, respectively, an increase of 4%, or $213. The increase was primarily driven by higher self-pay revenue as a result of increases in certain subscription plans and higher U.S. Music Royalty Fees due to a higher music royalty rate, partially offset by lower paid promotional revenue.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, subscriber revenue was $5,644 and $5,264, respectively, an increase of 7%, or $380. The increase was primarily driven by higher U.S. Music Royalty Fees due to a higher music royalty rate, higher self-pay subscription revenue as a result of a 3% increase in the daily weighted average number of subscribers and higher revenue from our connected vehicle services.

We expect subscriber revenues to increase based on the growth of our subscriber base, increases in the average price charged and the sale of additional services to subscribers.

Sirius XM Advertising Revenue includes the sale of advertising on Sirius XM's non-music channels.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, advertising revenue was $157 and $205, respectively, a decrease of 23%, or $48. The decrease was primarily due to lower advertising as a result of the impact of the COVID-19 pandemic.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, advertising revenue was $205 and $188, respectively, an increase of 9%, or $17. The increase was primarily due to a greater number of advertising spots sold and transmitted as well as increases in rates charged per spot.

We expect our Sirius XM advertising revenue to grow as we continue our recovery to pre-COVID-19 levels.

Sirius XM Equipment Revenue includes revenue and royalties from the sale of satellite radios, components and accessories.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, equipment revenue was $173 and $173, respectively. Increased OEM royalty revenue was offset by lower direct sales to consumers and loss of revenue resulting from the termination of the Automatic service.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, equipment revenue was $173 and $155, respectively, an increase of 12%, or $18. The increase was driven by an increase in royalty revenue due to our transition to a new generation of chipsets.

We expect equipment revenue to increase as royalty revenue associated with certain new chipsets increases.

Sirius XM Other Revenue includes service and advisory revenue from Sirius XM Canada, revenue from our connected vehicle services, and ancillary revenues.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, other revenue was $161 and $172, respectively, a decrease of 6%, or $11. The decrease was due to lower revenue from our connected vehicle services, rental car revenue and royalty revenue from Sirius XM Canada.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, other revenue was $172 and $171, respectively, an increase of 1%, or $1. The increase was primarily driven by higher royalty revenue generated from Sirius XM Canada, partially offset by a decrease in data usage revenue generated from our connected vehicle services.

We expect other revenue to decrease as royalties from Sirius XM Canada, rental car revenue and revenue generated from our connected vehicle services decline.

Pandora Revenue

Pandora Subscriber Revenue includes fees charged for Pandora Plus, Pandora Premium, Stitcher and Simplecast subscriptions.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, Pandora subscriber revenue was $515 and $527, respectively, a decrease of 2%, or $12. The decrease was primarily due to the expiration of the one-year promotional subscriptions generated through an agreement with T-Mobile.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, Pandora subscriber revenue was $527 and $478, respectively, an increase of 10%, or $49. The increase was primarily due to a greater weighted average number of subscribers and an increase in the average price per paid subscriber due to the growth of Pandora Premium.

We expect Pandora subscriber revenues to increase with growth of our Pandora andStitcher subscriber base.

Pandora Advertising Revenue is generated primarily from audio, display and video advertising from on-platform and off-platform advertising.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, Pandora advertising revenue was $1,183 and $1,200, respectively, a decrease of 1%, or $17. The decrease was primarily due to lower advertising as a result of the impact of the COVID-19 pandemic and a decrease in advertising revenue per thousand hours, partially offset by growth in our off-platform advertising and the inclusion of revenue from Stitcher.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, Pandora advertising revenue was $1,200 and $1,092, respectively, an increase of 10%, or $108. The increase was primarily due to growth in our off-platform advertising revenue, an increased sell-through percentage, increases in the average price per ad and revenue growth in the AdsWizz business.

We expect Pandora advertising revenue to increase due to our off-platform advertising opportunities, recovery from the impact of the COVID-19 pandemic and the addition of Stitcher.

Total Consolidated Revenue

Total Consolidated Revenue for the years ended December 31, 2020 and 2019, was $8,046 and $7,921, respectively, an increase of 2%, or $125. Total Consolidated Revenue for the years ended December 31, 2019 and 2018, was $7,921 and $7,348, respectively, an increase of 8%, or $573.

Sirius XM Cost of Services

Sirius XM Cost of Services includes revenue share and royalties, programming and content, customer service and billing and transmission expenses.

Sirius XM Revenue Share and Royalties include royalties for transmitting content, including streaming royalties, as well as automaker, content provider and advertising revenue share.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, revenue share and royalties were $1,484 and $1,431, respectively, an increase of 4%, or $53, and increased as a percentage of total Sirius XM revenue. The increase was driven by overall greater revenues subject to music royalties and revenue share to OEMs.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, revenue share and royalties were $1,431 and $1,394, respectively, an increase of 3%, or $37, but decreased as a percentage of total Sirius XM revenue. The increase was driven by overall greater revenues subject to royalties and revenue share. The increase was partially offset by a $69 charge during the second quarter of 2018 related to the legal settlement that resolved all outstanding claims, including ongoing audits, under Sirius XM's statutory license for sound recordings for the period January 1, 2007 through December 31, 2017.

We expect our Sirius XM revenue share and royalty costs to increase as our revenues grow.

Sirius XM Programming and Content includes costs to acquire, create, promote and produce content. We have entered into various agreements with third parties for music and non-music programming that require us to pay license fees and other amounts.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, programming and content expenses were $449 and $444, respectively, an increase of 1%, or $5, but decreased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher content licensing costs as well as greater personnel-related costs partially offset by one-time benefits for reduced sports programming as a result of shortened sports seasons due to the COVID-19 pandemic and lower costs associated with hosting live events.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, programming and content expenses were $444 and $406, respectively, an increase of 9%, or $38, and increased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher content licensing costs as well as greater personnel-related costs.

We expect our Sirius XM programming and content expenses to increase as we offer additional programming and renew or replace expiring agreements.

Sirius XM Customer Service and Billing includes costs associated with the operation and management of internal and third party customer service centers, and our subscriber management systems as well as billing and collection costs, bad debt expense, and transaction fees.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, customer service and billing expenses were $394 and $398, respectively, a decrease of 1%, or $4, and decreased as a percentage of total Sirius XM revenue. The decrease was driven by reduced staffing resulting from stay at home orders issued in countries in which our vendors operate call centers.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, customer service and billing expenses were $398 and $382, respectively, an increase of 4%, or $16, but decreased as a percentage of total Sirius XM revenue. The increase was driven by increased transaction fees from a larger subscriber base and higher bad debt expense.

We expect our Sirius XM customer service and billing expenses to increase as our subscriber base grows.

Sirius XM Transmission consists of costs associated with the operation and maintenance of our terrestrial repeater networks; satellites; satellite telemetry, tracking and control systems; satellite uplink facilities; studios; and delivery of our Internet streaming and connected vehicle services.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, transmission expenses were $123 and $112, respectively, an increase of 10%, or $11, and increased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher hosting and wireless costs associated with our 360L platform and our streaming and connected vehicle services.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, transmission expenses were $112 and $96, respectively, an increase of 17%, or $16, and increased as a percentage of total Sirius XM revenue. The increase was primarily driven by higher hosting and other costs associated with our streaming services and higher repeater network costs.

We expect our Sirius XM transmission expenses to increase as costs associated with our 360L platform and investments in internet streaming grow.

Sirius XM Cost of Equipment includes costs from the sale of satellite radios, components and accessories and provisions for inventory allowance attributable to products purchased for resale in our direct to consumer distribution channels.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, cost of equipment was $19 and $29, respectively, a decrease of 34%, or $10, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct sales to consumers and reduced costs due to the termination of the Automatic service.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, cost of equipment was $29 and $31, respectively, a decrease of 6%, or $2, and decreased as a percentage of equipment revenue. The decrease

was primarily due to lower direct sales to satellite radio and connected vehicle consumers, partially offset by an increase in our inventory reserve.

We expect our Sirius XM cost of equipment to fluctuate with the sales of our satellite radios.

Pandora Cost of Services

Pandora Cost of Services includes revenue share and royalties, programming and content, customer service and billing, and transmission expenses.

Pandora Revenue Share and Royalties includes licensing fees paid for streaming music or other content to our subscribers and listeners as well as revenue share paid to third party ad servers. We make payments to third party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of service in the related period.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, revenue share and royalties were $943 and $945, respectively, a decrease of 0%, or $2, but increased as a percentage of total Pandora revenue. The decrease was primarily attributable to a reversal of a pre-acquisition reserve of $16 for royalties during the first quarter of 2020, lower listening hours, and the expiration during 2019 of certain minimum guarantees in direct license agreements with record labels; partially offset by the inclusion of Stitcher.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, revenue share and royalties were $945 and $929, respectively, an increase of 2%, or $16, but decreased as a percentage of total Pandora revenue. The increase was primarily attributable to higher revenue share driven by growth of our off-platform revenue, partially offset by lower royalty costs resulting from renegotiated agreements with record labels, music and sound recording copyright holders and distributors.

We expect our Pandora revenue share to increase as off-platform revenue increases and our royalty costs to increase due to higher music royalty rates.

Pandora Programming and Content includes costs to produce live listener events and promote content.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, programming and content expenses were $32 and $18, respectively, an increase of 78%, or $14, and increased as a percentage of total Pandora revenue. The increase was primarily attributable to higher production costs and personnel-related costs.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, programming and content expenses were $18 and $11, respectively, an increase of 64%, or $7, and increased as a percentage of total Pandora revenue. The increase was primarily attributable to higher personnel-related and content costs.

We expect our Pandora programming and content costs to increase as we offer additional programming and produce live listener events and promotions.

Pandora Customer Service and Billing includes transaction fees on subscription purchases through mobile app stores and bad debt expense.

- *2020 vs. 2019*: For the years ended December 31, 2020 and 2019, customer service and billing expenses were $87 and $85, respectively, an increase of 2%, or $2, and increased as a percentage of total Pandora revenue. The increase was primarily driven by higher bad debt expense, partially offset by lower transaction costs.

- *2019 vs. 2018*: For the years ended December 31, 2019 and 2018, customer service and billing expenses were $85 and $95, respectively, a decrease of 11%, or $10, and decreased as a percentage of total Pandora revenue. The decrease was primarily driven by lower bad debt expense due to recoveries and lower transaction fees.

We expect our Pandora customer service and billing costs to increase as our subscriber base grows.

Pandora Transmission includes costs associated with content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jennifer C. Witz, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2020 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JENNIFER C. WITZ

Jennifer C. Witz
Chief Executive Officer and Director
(Principal Executive Officer)

February 2, 2021

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Sean S. Sullivan, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2020 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ SEAN S. SULLIVAN

Sean S. Sullivan
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

February 2, 2021

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Annual Report of Sirius XM Holdings Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jennifer C. Witz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JENNIFER C. WITZ

Jennifer C. Witz
Chief Executive Officer and Director
(Principal Executive Officer)

February 2, 2021

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Annual Report of Sirius XM Holdings Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean S. Sullivan, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SEAN S. SULLIVAN

Sean S. Sullivan
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

February 2, 2021

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1290 Avenue of the Americas, 11th Floor

New York, New York	**10104**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (212) 584-5100

Former name, former address and former fiscal year, if changed since last report: Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of April 22, 2019)	
COMMON STOCK, $0.001 PAR VALUE	**4,607,284,743**	**SHARES**

enrichment and violation of rights of publicity arising from allegations that Pandora owes royalties for the public performance of sound recordings recorded prior to February 15, 1972. The actions in California and New Jersey are currently stayed pending the Ninth Circuit's decision in *Flo & Eddie, Inc. v. Pandora Media, Inc* .

In September 2016, Ponderosa Twins Plus One and others filed a class action suit against Pandora alleging claims similar to those asserted in *Flo & Eddie, Inc. v. Pandora Media Inc* . The action is currently stayed in the Northern District of California pending the Ninth Circuit's decision in *Flo & Eddie, Inc. v. Pandora Media, Inc* .

We believe we have substantial defenses to the claims asserted in these actions, and we intend to defend these actions vigorously.

Other Matters . In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; owners of patents, trademarks, copyrights or other intellectual property and certain contingencies related to Pandora. None of these other matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

(16) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting* , we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The change in segment reporting is due to the acquisition of Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. Our reportable segments have been determined based on our internal management structure. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We did no t have any intersegment advertising campaigns during the three months ended March 31, 2019 .

Segment revenue and gross profit were as follows during the periods presented:

	For the Three Months Ended March 31, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,370	$ 88	$ 1,458
Advertising revenue	46	163	209
Equipment revenue	41	—	41
Other revenue	36	—	36
Total revenue	1,493	251	1,744
Cost of services [(a)]	(569)	(170)	(739)
Segment gross profit	$ 924	$ 81	$ 1,005

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	Three Months Ended March 31, 2019
Segment Gross Profit	$ 1,005
Subscriber acquisition costs	(108)
Sales and marketing [(a)]	(168)
Engineering, design and development [(a)]	(45)
General and administrative [(a)]	(119)
Depreciation and amortization	(107)
Share-based payment expense	(49)
Acquisition and other related costs	(76)
Total other expense	(90)
Consolidated income before income taxes	$ 243

(a) Share-based payment expense includes $9 related to cost of services, $15 related to sales and marketing, $9 related to engineering, design and development and $16 related to general and administrative.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of March 31, 2019 , long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three months ended March 31, 2019 .

(17) Income Taxes

We file a consolidated federal income tax return for all of our wholly owned subsidiaries. For the three months ended March 31, 2019 and 2018 , income tax expense was $81 and $80 , respectively.

Our effective tax rate for the three months ended March 31, 2019 and 2018 was 33.3% and 21.7% , respectively. The effective tax rate for the three months ended March 31, 2019 was primarily impacted by the increase to the valuation allowance related to the federal research and development credits that are no longer expected to be realizable. The effective tax rate for the three months ended March 31, 2018 was primarily impacted by the recognition of excess tax benefits related to share based compensation. We estimate our effective tax rate for the year ending December 31, 2019 will be approximately 24% .

As of March 31, 2019 and December 31, 2018 , we had a valuation allowance related to deferred tax assets of $88 and $66 , respectively, that were not likely to be realized due to certain net operating loss limitations, including tax credits, and acquired net operating losses that were not more likely than not going to be utilized.

(18) Subsequent Events

Capital Return Program

For the period from April 1, 2019 to April 22, 2019 we repurchased 38 shares of our common stock on the open market for an aggregate purchase price of $224 , including fees and commissions.

On April 23, 2019 , our board of directors declared a quarterly dividend on our common stock in the amount of $0.0121 per share of common stock payable on May 31, 2019 to stockholders of record as of the close of business on May 10, 2019 .

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 24th day of April 2019 .

SIRIUS XM HOLDINGS INC.

By: /s/ D AVID J. F REAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Meyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

April 24, 2019

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

April 24, 2019

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

April 24, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

April 24, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1290 Avenue of the Americas , 11th Floor , New York , NY
(Address of Principal Executive Offices)
10104
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Former name, former address and former fiscal year, if changed since last report: Not Applicable

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of July 26, 2019)	
Common stock, $0.001 PAR VALUE	**4,449,815,890**	**shares**

Protection Act of 1991 (the "TCPA") by, among other things, making telephone solicitations to persons on the National Do-Not-Call registry, a database established to allow consumers to exclude themselves from telemarketing calls unless they consent to receive the calls in a signed, written agreement, and making calls to consumers in violation of our internal Do-Not-Call registry. The plaintiff is seeking various forms of relief, including statutory damages of five hundred dollars for each violation of the TCPA or, in the alternative, treble damages of up to fifteen hundred dollars for each knowing and willful violation of the TCPA and a permanent injunction prohibiting us from making, or having made, any calls to land lines that are listed on the National Do-Not-Call registry or our internal Do-Not-Call registry.

Following a mediation, in April 2019, Sirius XM entered into an agreement to settle this purported class action suit. The settlement resolves the claims of consumers for the period October 2013 through January 2019. As part of the settlement, Sirius XM paid $25 into a non-reversionary settlement fund from which cash to class members, notice, administrative costs, and attorney's fees and costs will be paid. The settlement also contemplates that Sirius XM will provide three months of service to its All Access subscription package for those members of the class that elect to receive it, in lieu of cash, at no cost to those class members and who are not active subscribers at the time of the distribution. The availability of this three -month service option will not diminish the $25 common fund. As part of the settlement, Sirius XM will also implement certain changes relating to its "Do-Not-Call" practices and telemarketing programs. Settlement of this matter is subject to, among other things, final approval by the Court.

Pre-1972 Sound Recording Litigation. On October 2, 2014, Flo & Eddie Inc. filed a class action suit against Pandora in the federal district court for the Central District of California. The complaint alleges a violation of California Civil Code Section 980, unfair competition, misappropriation and conversion in connection with the public performance of sound recordings recorded prior to February 15, 1972 (which we refer to as, "pre-1972 recordings"). On December 19, 2014, Pandora filed a motion to strike the complaint pursuant to California's Anti-Strategic Lawsuit Against Public Participation ("Anti-SLAPP") statute, which following denial of Pandora's motion was appealed to the Ninth Circuit Court of Appeals. In March 2017, the Ninth Circuit requested certification to the California Supreme Court on the substantive legal questions. The California Supreme Court accepted certification. In May 2019, the California Supreme Court issued an order dismissing consideration of the certified questions on the basis that, following the enactment of the Orrin G. Hatch-Bob Goodlatte Music Modernization Act, Pub. L. No. 115-264, 132 Stat. 3676 (2018) (the "MMA"), resolution of the questions posed by the Ninth Circuit Court of Appeals was no longer "necessary to . . . settle an important question of law."

In September and October 2015, Arthur and Barbara Sheridan filed separate class action suits against Pandora in the federal district courts for the Northern District of California and the District of New Jersey. The complaints allege a variety of violations of common law and state copyright statutes, common law misappropriation, unfair competition, conversion, unjust enrichment and violation of rights of publicity arising from allegations that Pandora owes royalties for the public performance of pre-1972 recordings. The *Sheridan* actions in California and New Jersey are currently stayed pending the Ninth Circuit's decision in *Flo & Eddie, Inc. v. Pandora Media, Inc* .

In September 2016, Ponderosa Twins Plus One and others filed a class action suit against Pandora alleging claims similar to those asserted in *Flo & Eddie, Inc. v. Pandora Media Inc* . This action is also currently stayed in the Northern District of California pending the Ninth Circuit's decision in *Flo & Eddie, Inc. v. Pandora Media, Inc* .

The MMA grants a newly available federal preemption defense to the claims asserted in the aforementioned lawsuits. In July 2019, Pandora made the required payments and reporting under the MMA for certain of its uses of pre-1972 recordings to avail itself of this federal preemption defense. Based on the federal preemption contained in the MMA (along with other considerations), Pandora has asked the Ninth Circuit to order the dismissal of the *Flo & Eddie, Inc. v. Pandora Media, Inc.* case. When the stays in the remaining cases-the two *Sheridan v. Pandora Media* , Inc. cases and the *Ponderosa Twins Plus One et al. v. Pandora Media* case-are lifted, Pandora expects to file motions to dismiss those actions as well.

We believe we have substantial defenses to the claims asserted in these actions, and we intend to defend these actions vigorously.

Other Matters . In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; owners of patents, trademarks, copyrights or other intellectual property

and certain contingencies related to Pandora. None of these other matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

(16) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting* , we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The change in segment reporting is due to the acquisition of Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. Our reportable segments have been determined based on our internal management structure. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during the three and six months ended June 30, 2019 .

Segment revenue and gross profit were as follows during the periods presented:

	For the Three Months Ended June 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,402	$ 135	$ 1,537
Advertising revenue	52	306	358
Equipment revenue	41	—	41
Other revenue	41	—	41
Total revenue	1,536	441	1,977
Cost of services [(a)]	(594)	(278)	(872)
Segment gross profit	$ 942	$ 163	$ 1,105

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	Three Months Ended June 30, 2019
Segment Gross Profit	$ 1,105
Subscriber acquisition costs	(104)
Sales and marketing [(a)]	(213)
Engineering, design and development [(a)]	(61)
General and administrative [(a)]	(105)
Depreciation and amortization	(119)
Share-based payment expense	(57)
Acquisition and other related costs	(7)
Total other (expense) income	(100)
Consolidated income before income taxes	$ 339

(a) Share-based payment expense of $10 related to cost of services, $19 related to sales and marketing, $13 related to engineering, design and development and $15 related to general and administrative has been excluded.

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Six Months Ended June 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 2,772	$ 223	$ 2,995
Advertising revenue	98	469	567
Equipment revenue	82	—	82
Other revenue	77	—	77
Total revenue	3,029	692	3,721
Cost of services [b]	(1,163)	(448)	(1,611)
Segment gross profit	$ 1,866	$ 244	$ 2,110

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	Six Months Ended June 30, 2019
Segment Gross Profit	$ 2,110
Subscriber acquisition costs	(212)
Sales and marketing [b]	(381)
Engineering, design and development [b]	(106)
General and administrative [b]	(224)
Depreciation and amortization	(226)
Share-based payment expense	(106)
Acquisition and other related costs	(83)
Total other (expense) income	(190)
Consolidated income before income taxes	$ 582

(b) Share-based payment expense of $19 related to cost of services, $34 related to sales and marketing, $22 related to engineering, design and development and $31 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of June 30, 2019 , long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three and six months ended June 30, 2019 .

(17) Income Taxes

We file a consolidated federal income tax return for all of our wholly owned subsidiaries. For the three months ended June 30, 2019 and 2018 , income tax expense was $76 and $71 , respectively, and $157 and $151 for the six months ended June 30, 2019 and 2018 , respectively.

Our effective tax rate for the three months ended June 30, 2019 and 2018 was 22.4% and 19.4% , respectively. Our effective tax rate for the six months ended June 30, 2019 and 2018 was 27.0% and 20.6% , respectively. The effective tax rate for the six months ended June 30, 2019 was primarily impacted by the increase to the valuation allowance related to the federal research and development credits that are no longer expected to be realizable. The effective tax rate for the three and six months ended June 30, 2018 was primarily impacted by the recognition of excess tax benefits related to share based compensation. We estimate our effective tax rate for the year ending December 31, 2019 will be approximately 23% .

As of June 30, 2019 and December 31, 2018 , we had a valuation allowance related to deferred tax assets of $88 and $66 , respectively, that were not likely to be realized due to certain net operating loss limitations, including tax credits, and acquired net operating losses that were not more likely than not going to be utilized.

(18) Subsequent Events

Debt Transactions

On July 2, 2019, Sirius XM issued $1,500 in aggregate principal amount of 4.625% Notes due 2024 (the " 4.625% Notes"). Interest is payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2020. The 4.625% Notes will mature on July 15, 2024. All material domestic subsidiaries, including Pandora and its subsidiaries, that guarantee the Credit Facility have guaranteed the 4.625% Notes. The 4.625% Notes have substantially similar covenants and restrictions as Sirius XM's other outstanding notes. For a description of these covenants and restrictions, refer to Note 12.

On June 18, 2019, Sirius XM issued a redemption notice pursuant to the indenture governing the 6.00% Notes to redeem all of its $1,500 aggregate principal amount of outstanding 6.00% Notes. The 6.00% Notes were redeemed on July 18, 2019 at a redemption price of 103.0% of the principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the date of redemption. This redemption will result in a Loss on extinguishment of debt and credit facilities, net, of approximately $56 in the third quarter of 2019.

Capital Return Program

For the period from July 1, 2019 to July 26, 2019 we repurchased 44 shares of our common stock on the open market for an aggregate purchase price of $264 , including fees and commissions.

On July 16, 2019 , our board of directors declared a quarterly dividend on our common stock in the amount of $0.0121 per share of common stock payable on August 30, 2019 to stockholders of record as of the close of business on August 9, 2019 .

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 30th day of July 2019 .

SIRIUS XM HOLDINGS INC.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Meyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

July 30, 2019

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

July 30, 2019

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

July 30, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

July 30, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1290 Avenue of the Americas, 11th Floor, New York, NY
(Address of Principal Executive Offices)
10104
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Former name, former address and former fiscal year, if changed since last report: Not Applicable

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of October 29, 2019)	
Common stock, $0.001 par value	**4,423,719,942**	**shares**

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

Other Matters. In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these other matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

(16) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The change in segment reporting is due to the acquisition of Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. Our reportable segments have been determined based on our internal management structure. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during the three and nine months ended September 30, 2019.

Segment revenue and gross profit were as follows during the periods presented:

	For the Three Months Ended September 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,424	$ 132	$ 1,556
Advertising revenue	51	315	366
Equipment revenue	45	—	45
Other revenue	44	—	44
Total revenue	1,564	447	2,011
Cost of services [(a)]	(597)	(273)	(870)
Segment gross profit	$ 967	$ 174	$ 1,141

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	Three Months Ended September 30, 2019
Segment Gross Profit	$ 1,141
Subscriber acquisition costs	(101)
Sales and marketing [(a)]	(210)
Engineering, design and development [(a)]	(63)
General and administrative [(a)]	(108)
Depreciation and amortization	(118)
Share-based payment expense	(65)
Total other (expense) income	(160)
Consolidated income before income taxes	$ 316

(a) Share-based payment expense of $11 related to cost of services, $23 related to sales and marketing, $15 related to engineering, design and development and $16 related to general and administrative has been excluded.

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Nine Months Ended September 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 4,196	$ 355	$ 4,551
Advertising revenue	149	784	933
Equipment revenue	127	—	127
Other revenue	121	—	121
Total revenue	4,593	1,139	5,732
Cost of services [(b)]	(1,761)	(720)	(2,481)
Segment gross profit	$ 2,832	$ 419	$ 3,251

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	Nine Months Ended September 30, 2019
Segment Gross Profit	$ 3,251
Subscriber acquisition costs	(313)
Sales and marketing [(b)]	(591)
Engineering, design and development [(b)]	(169)
General and administrative [(b)]	(332)
Depreciation and amortization	(344)
Share-based payment expense	(171)
Acquisition and other related costs	(83)
Total other (expense) income	(350)
Consolidated income before income taxes	$ 898

(b) Share-based payment expense of $30 related to cost of services, $57 related to sales and marketing, $37 related to engineering, design and development and $47 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of September 30, 2019, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three and nine months ended September 30, 2019.

(17) Income Taxes

We file a consolidated federal income tax return for all of our wholly owned subsidiaries. For the three months ended September 30, 2019 and 2018, income tax expense was $70 and $12, respectively, and $227 and $162 for the nine months ended September 30, 2019 and 2018, respectively.

Our effective tax rate for the three months ended September 30, 2019 and 2018 was 22.2% and 3.3%, respectively. Our effective tax rate for the nine months ended September 30, 2019 and 2018 was 25.3% and 14.9%, respectively. The effective tax rate for the three months ended September 30, 2019 was primarily impacted by the recognition of excess tax benefits related to share based compensation. The effective tax rate for the nine months ended September 30, 2019 was primarily impacted by the increase to the valuation allowance related to the federal research and development credits that are no longer expected to be realizable. The effective tax rate for the three and nine months ended September 30, 2018 was primarily impacted by the recognition of excess tax benefits related to share based compensation and a benefit related to state research and development credits. We estimate our effective tax rate for the year ending December 31, 2019 will be approximately 24%.

As of September 30, 2019 and December 31, 2018, we had a valuation allowance related to deferred tax assets of $86 and $66, respectively, that were not likely to be realized due to certain net operating loss limitations, including tax credits, and acquired net operating losses that were not more likely than not going to be utilized.

(18) Subsequent Events

Capital Return Program

For the period from October 1, 2019 to October 29, 2019 we repurchased 9 shares of our common stock on the open market for an aggregate purchase price of $54, including fees and commissions.

On October 10, 2019, our board of directors declared a quarterly dividend on our common stock in the amount of $0.01331 per share of common stock payable on November 29, 2019 to stockholders of record as of the close of business on November 8, 2019.

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		2019 vs 2018 Change			
					Three Months		Nine Months	
	2019	2018	2019	2018	Amount	%	Amount	%
Revenue	(Pro Forma)	(Pro Forma)	(Pro Forma)	(Pro Forma)				
Sirius XM:								
Subscriber revenue	$ 1,424	$ 1,340	$ 4,196	$ 3,903	$ 84	6 %	$ 293	8 %
Advertising revenue	51	46	149	135	5	11 %	14	10 %
Equipment revenue	45	41	127	113	4	10 %	14	12 %
Other revenue	46	42	127	130	4	10 %	(3)	(2)%
Total Sirius XM revenue	1,566	1,469	4,599	4,281	97	7 %	318	7 %
Pandora:								
Subscriber revenue	132	126	401	345	6	5 %	56	16 %
Advertising revenue	315	292	852	778	23	8 %	74	10 %
Total Pandora revenue	447	418	1,253	1,123	29	7 %	130	12 %
Total consolidated revenue	2,013	1,887	5,852	5,404	126	7 %	448	8 %
Cost of services								
Sirius XM:								
Revenue share and royalties	358	343	1,065	1,057	15	4 %	8	1 %
Programming and content	113	96	328	303	17	18 %	25	8 %
Customer service and billing	99	95	296	284	4	4 %	12	4 %
Transmission	29	24	79	70	5	21 %	9	13 %
Cost of equipment	8	7	20	22	1	14 %	(2)	(9)%
Total Sirius XM cost of services	607	565	1,788	1,736	42	7 %	52	3 %
Pandora:								
Revenue share and royalties	238	235	701	694	3	1 %	7	1 %
Programming and content	3	3	10	7	—	— %	3	43 %
Customer service and billing	20	25	64	69	(5)	(20)%	(5)	(7)%
Transmission	17	14	43	38	3	21 %	5	13 %
Total Pandora cost of services	278	277	818	808	1	— %	10	1 %
Total consolidated cost of services	885	842	2,606	2,544	43	5 %	62	2 %
Subscriber acquisition costs	101	109	313	352	(8)	(7)%	(39)	(11)%
Sales and marketing	233	214	684	638	19	9 %	46	7 %
Engineering, design and development	78	69	220	195	9	13 %	25	13 %
General and administrative	124	126	395	388	(2)	(2)%	7	2 %
Depreciation and amortization	118	117	359	345	1	1 %	14	4 %
Total operating expenses	1,539	1,477	4,577	4,462	62	4 %	115	3 %
Income from operations	474	410	1,275	942	64	16 %	333	35 %
Other (expense) income:								
Interest expense	(104)	(93)	(293)	(284)	(11)	(12)%	(9)	(3)%
Loss on extinguishment of debt	(56)	—	(57)	(17)	(56)	— %	(40)	(235)%
Other (expense) income	—	3	(1)	14	(3)	(100)%	(15)	(107)%
Total other (expense) income	(160)	(90)	(351)	(287)	(70)	(78)%	(64)	(22)%
Income before income taxes	314	320	924	655	(6)	(2)%	269	41 %
Income tax expense	(69)	(3)	(234)	(47)	(66)	nm	(187)	(398)%
Net income	$ 245	$ 317	690	608	$ (72)	(23)%	$ 82	13 %
Adjusted EBITDA	$ 657	$ 585	$ 1,841	$ 1,539	$ 72	12 %	$ 302	20 %

nm - not meaningful

CO Rem. Ex. E.00146

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 31st day of October 2019.

SIRIUS XM HOLDINGS INC.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Meyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

October 31, 2019

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

October 31, 2019

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAMES E. MEYER

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

October 31, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

October 31, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1221 Avenue of the Americas, 35th Floor, New York, NY
(Address of Principal Executive Offices)
10020
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Former name, former address and former fiscal year, if changed since last report: Not Applicable
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of April 24, 2020)	
Common stock, $0.001 par value	**4,379,119,828**	**shares**

XM internet radio service). SoundExchange has proposed increasing the commercial webcasting rates to $0.0028 per performance for non-subscription transmissions and $0.0031 per performance for subscription transmissions.

In January 2020, the participants filed written rebuttal statements, responding to each other's proposals. A multi-week hearing was scheduled to begin before the CRB in March 2020, but has been delayed as a result of the COVID-19 pandemic. We expect the hearing to begin before the CRB sometime this summer.

Other Matters. In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these other matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

(16) Income Taxes

We file a consolidated federal income tax return for all of our wholly owned subsidiaries. For the three months ended March 31, 2020 and 2019, income tax expense was $80 and $81, respectively.

Our effective tax rate for the three months ended March 31, 2020 and 2019 was 21.4% and 33.3%, respectively. The effective tax rate for the three months ended March 31, 2020 was primarily impacted by the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the three months ended March 31, 2019 was primarily impacted by the increase to the valuation allowance related to the federal research and development credits that are no longer expected to be realizable. We estimate our effective tax rate for the year ending December 31, 2020 will be approximately 23%.

As of each of March 31, 2020 and December 31, 2019, we had a valuation allowance related to deferred tax assets of $70 that was not likely to be realized due to certain net operating loss limitations, including tax credits, and acquired net operating losses that were not more likely than not going to be utilized.

(17) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. We report our segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during both the three months ended March 31, 2020 and 2019.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

Segment revenue and gross profit were as follows during the periods presented:

	For the Three Months Ended March 31, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,457	$ 128	$ 1,585
Advertising revenue	44	241	285
Equipment revenue	41	—	41
Other revenue	41	—	41
Total revenue	1,583	369	1,952
Cost of services [(a)]	(593)	(246)	(839)
Segment gross profit	$ 990	$ 123	$ 1,113

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended March 31, 2020
Segment Gross Profit	$ 1,113
Subscriber acquisition costs	(99)
Sales and marketing [(a)]	(208)
Engineering, design and development [(a)]	(60)
General and administrative [(a)]	(91)
Depreciation and amortization	(132)
Share-based payment expense	(55)
Total other (expense) income	(95)
Consolidated income before income taxes	$ 373

(a) Share-based payment expense of $11 related to cost of services, $17 related to sales and marketing, $11 related to engineering, design and development and $16 related to general and administrative has been excluded.

	For the Three Months Ended March 31, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,370	$ 88	$ 1,458
Advertising revenue	46	163	209
Equipment revenue	41	—	41
Other revenue	36	—	36
Total revenue	1,493	251	1,744
Cost of services [(b)]	(569)	(170)	(739)
Segment gross profit	$ 924	$ 81	$ 1,005

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Three Months Ended March 31, 2019
Segment Gross Profit	$ 1,005
Subscriber acquisition costs	(108)
Sales and marketing [(b)]	(168)
Engineering, design and development [(b)]	(45)
General and administrative [(b)]	(119)
Depreciation and amortization	(107)
Share-based payment expense	(49)
Acquisition and other related costs	(76)
Total other (expense) income	(90)
Consolidated income before income taxes	$ 243

(b) Share-based payment expense of $9 related to cost of services, $15 related to sales and marketing, $9 related to engineering, design and development and $16 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of March 31, 2020, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three months ended March 31, 2020 and 2019.

(18) Subsequent Events

Capital Return Program

On April 21, 2020, our board of directors declared a quarterly dividend on our common stock in the amount of $0.01331 per share of common stock payable on May 29, 2020 to stockholders of record as of the close of business on May 8, 2020.

Asset Disposal

In April 2020, we announced that we are discontinuing the Automatic product. We will take an impairment and restructuring charge in the second quarter of 2020 related to this disposal.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 28th day of April 2020.

SIRIUS XM HOLDINGS INC.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Meyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

April 28, 2020

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

April 28, 2020

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAMES E. MEYER

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

April 28, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

April 28, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2020
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1221 Avenue of the Americas, 35th Floor, New York, NY
(Address of Principal Executive Offices)
10020
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Former name, former address and former fiscal year, if changed since last report: Not Applicable
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of July 28, 2020)	
Common stock, $0.001 par value	**4,340,289,704**	**shares**

(17) Income Taxes

We file a consolidated federal income tax return for all of our wholly owned subsidiaries. For the three months ended June 30, 2020 and 2019, income tax expense was $74 and $76, respectively, and $154 and $157 for the six months ended June 30, 2020 and 2019, respectively.

Our effective tax rate for the three months ended June 30, 2020 and 2019 was 23.3% and 22.4%, respectively. Our effective tax rate for the six months ended June 30, 2020 and 2019 was 22.3% and 27.0%, respectively. The effective tax rates for the three and six months ended June 30, 2020 were primarily impacted by federal and state tax credits and the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the three months ended June 30, 2019 was primarily impacted by the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the six months ended June 30, 2019 was primarily impacted by the increase to the valuation allowance related to certain federal research and development credits that are no longer expected to be realizable. We estimate our effective tax rate for the year ending December 31, 2020 will be approximately 23%.

As of June 30, 2020 and December 31, 2019, we had a valuation allowance related to deferred tax assets of $69 and $70, respectively, that was not likely to be realized due to certain net operating loss limitations, including tax credits, and acquired net operating losses that were not more likely than not going to be utilized.

(18) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. We report our segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during both the three and six months ended June 30, 2020 and 2019.

Segment revenue and gross profit were as follows during the periods presented:

	For the Three Months Ended June 30, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,453	$ 125	$ 1,578
Advertising revenue	25	211	236
Equipment revenue	25	—	25
Other revenue	35	—	35
Total revenue	1,538	336	1,874
Cost of services [a]	(593)	(263)	(856)
Segment gross profit	$ 945	$ 73	$ 1,018

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended June 30, 2020
Segment Gross Profit	$ 1,018
Subscriber acquisition costs	(48)
Sales and marketing [(a)]	(201)
Engineering, design and development [(a)]	(52)
General and administrative [(a)]	(102)
Depreciation and amortization	(124)
Share-based payment expense	(52)
Acquisition and restructuring costs	(24)
Total other (expense) income	(98)
Consolidated income before income taxes	$ 317

(a) Share-based payment expense of $10 related to cost of services, $16 related to sales and marketing, $9 related to engineering, design and development and $17 related to general and administrative has been excluded.

	For the Three Months Ended June 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,402	$ 135	$ 1,537
Advertising revenue	52	306	358
Equipment revenue	41	—	41
Other revenue	41	—	41
Total revenue	1,536	441	1,977
Cost of services [(b)]	(594)	(278)	(872)
Segment gross profit	$ 942	$ 163	$ 1,105

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended June 30, 2019
Segment Gross Profit	$ 1,105
Subscriber acquisition costs	(104)
Sales and marketing [(b)]	(213)
Engineering, design and development [(b)]	(61)
General and administrative [(b)]	(105)
Depreciation and amortization	(119)
Share-based payment expense	(57)
Acquisition and restructuring costs	(7)
Total other (expense) income	(100)
Consolidated income before income taxes	$ 339

(b) Share-based payment expense of $10 related to cost of services, $19 related to sales and marketing, $13 related to engineering, design and development and $15 related to general and administrative has been excluded.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Six Months Ended June 30, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 2,910	$ 253	$ 3,163
Advertising revenue	69	452	521
Equipment revenue	66	—	66
Other revenue	76	—	76
Total revenue	3,121	705	3,826
Cost of services [c]	(1,186)	(509)	(1,695)
Segment gross profit	$ 1,935	$ 196	$ 2,131

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Six Months Ended June 30, 2020
Segment Gross Profit	$ 2,131
Subscriber acquisition costs	(147)
Sales and marketing [c]	(409)
Engineering, design and development [c]	(112)
General and administrative [c]	(193)
Depreciation and amortization	(256)
Share-based payment expense	(107)
Acquisition and restructuring costs	(24)
Total other (expense) income	(193)
Consolidated income before income taxes	$ 690

(c) Share-based payment expense of $21 related to cost of services, $33 related to sales and marketing, $20 related to engineering, design and development and $33 related to general and administrative has been excluded.

	For the Six Months Ended June 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 2,772	$ 223	$ 2,995
Advertising revenue	98	469	567
Equipment revenue	82	—	82
Other revenue	77	—	77
Total revenue	3,029	692	3,721
Cost of services [d]	(1,163)	(448)	(1,611)
Segment gross profit	$ 1,866	$ 244	$ 2,110

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Six Months Ended June 30, 2019
Segment Gross Profit	$ 2,110
Subscriber acquisition costs	(212)
Sales and marketing [d]	(381)
Engineering, design and development [d]	(106)
General and administrative [d]	(224)
Depreciation and amortization	(226)
Share-based payment expense	(106)
Acquisition and restructuring costs	(83)
Total other (expense) income	(190)
Consolidated income before income taxes	$ 582

(d) Share-based payment expense of $19 related to cost of services, $34 related to sales and marketing, $22 related to engineering, design and development and $31 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of June 30, 2020, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three and six months ended June 30, 2020 and 2019.

(19) Subsequent Events

Debt Transactions

On June 8, 2020, Sirius XM issued a redemption notice pursuant to the indentures governing its 4.625% Senior Notes due 2023 (the "4.625% Notes") and 5.375% Senior Notes due 2025 (the "5.375% Notes") to redeem all of the $500 aggregate principal amount of outstanding 4.625% Notes and all of the $1,000 aggregate principal amount of outstanding 5.375% Notes. The 4.625% Notes and 5.375% Notes were redeemed on July 9, 2020 at a redemption price of 100.8% and 102.7% of the principal amount thereof, respectively, plus accrued and unpaid interest thereon to, but excluding, the date of redemption. This redemption will result in a Loss on extinguishment of debt, net, of approximately $40 in the third quarter of 2020.

Capital Return Program

On July 14, 2020, our board of directors approved an additional $2,000 of common stock repurchases, increasing our total authorization to $16,000 since the inception of the program. For the period from July 1, 2020 to July 28, 2020 we repurchased 13 shares of our common stock on the open market for an aggregate purchase price of $75, including fees and commissions.

On July 14, 2020, our board of directors declared a quarterly dividend on our common stock in the amount of $0.01331 per share of common stock payable on August 31, 2020 to stockholders of record as of the close of business on August 7, 2020.

Stitcher Acquisition

On July 13, 2020, Sirius XM entered into an agreement with The E.W. Scripps Company ("Scripps") and certain of its subsidiaries ("Scripps") to acquire the assets of Stitcher, a pioneer in podcast production, distribution, and ad sales. Under the terms of the asset purchase agreement, at the closing, Sirius XM will make a cash payment of $265 to Scripps. The agreement provides that Sirius XM will potentially make up to $60 in additional contingent payments based on Stitcher achieving certain financial metrics in 2020 and 2021. The transaction is expected to close in the third quarter of 2020, subject to receipt of required regulatory approvals and the satisfaction of other customary closing conditions.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 30th day of July 2020.

SIRIUS XM HOLDINGS INC.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Meyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 of Sirius XM Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

July 30, 2020

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 of Sirius XM Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

July 30, 2020

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer)

July 30, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

July 30, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-3916511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1221 Avenue of the Americas, 35th Floor, New York, NY
(Address of Principal Executive Offices)
10020
(Zip Code)

Registrant's telephone number, including area code: (212) 584-5100
Former name, former address and former fiscal year, if changed since last report: Not Applicable
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value	**SIRI**	**NASDAQ Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of October 20, 2020)
Common stock, $0.001 par value	**4,249,501,448 shares**

As of September 30, 2020 and December 31, 2019, we had a valuation allowance related to deferred tax assets of $69 and $70, respectively, that was not likely to be realized due to certain net operating loss limitations, including tax credits, and acquired net operating losses that were not more likely than not going to be utilized.

(18) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. We report our segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during both the three and nine months ended September 30, 2020 and 2019.

Segment revenue and gross profit were as follows during the periods presented:

	For the Three Months Ended September 30, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,462	$ 132	$ 1,594
Advertising revenue	39	306	345
Equipment revenue	47	—	47
Other revenue	39	—	39
Total revenue	1,587	438	2,025
Cost of services [a]	(610)	(274)	(884)
Segment gross profit	$ 977	$ 164	$ 1,141

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended September 30, 2020
Segment Gross Profit	$ 1,141
Subscriber acquisition costs	(110)
Sales and marketing [a]	(205)
Engineering, design and development [a]	(53)
General and administrative [a]	(112)
Depreciation and amortization	(125)
Share-based payment expense	(58)
Total other (expense) income	(134)
Consolidated income before income taxes	$ 344

(a) Share-based payment expense of $11 related to cost of services, $17 related to sales and marketing, $11 related to engineering, design and development and $19 related to general and administrative has been excluded.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Three Months Ended September 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 1,424	$ 132	$ 1,556
Advertising revenue	51	315	366
Equipment revenue	45	—	45
Other revenue	44	—	44
Total revenue	1,564	447	2,011
Cost of services [b]	(597)	(273)	(870)
Segment gross profit	$ 967	$ 174	$ 1,141

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended September 30, 2019
Segment Gross Profit	$ 1,141
Subscriber acquisition costs	(101)
Sales and marketing [b]	(210)
Engineering, design and development [b]	(63)
General and administrative [b]	(108)
Depreciation and amortization	(118)
Share-based payment expense	(65)
Total other (expense) income	(160)
Consolidated income before income taxes	$ 316

(b) Share-based payment expense of $11 related to cost of services, $23 related to sales and marketing, $15 related to engineering, design and development and $16 related to general and administrative has been excluded.

	For the Nine Months Ended September 30, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 4,372	$ 385	$ 4,757
Advertising revenue	108	758	866
Equipment revenue	113	—	113
Other revenue	115	—	115
Total revenue	4,708	1,143	5,851
Cost of services [c]	(1,796)	(783)	(2,579)
Segment gross profit	$ 2,912	$ 360	$ 3,272

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Nine Months Ended September 30, 2020
Segment Gross Profit	$ 3,272
Subscriber acquisition costs	(257)
Sales and marketing [c]	(614)
Engineering, design and development [c]	(165)
General and administrative [c]	(305)
Depreciation and amortization	(381)
Share-based payment expense	(165)
Acquisition and restructuring costs	(24)
Total other (expense) income	(327)
Consolidated income before income taxes	$ 1,034

(c) Share-based payment expense of $32 related to cost of services, $50 related to sales and marketing, $31 related to engineering, design and development and $52 related to general and administrative has been excluded.

	For the Nine Months Ended September 30, 2019		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	$ 4,196	$ 355	$ 4,551
Advertising revenue	149	784	933
Equipment revenue	127	—	127
Other revenue	121	—	121
Total revenue	4,593	1,139	5,732
Cost of services [d]	(1,761)	(720)	(2,481)
Segment gross profit	$ 2,832	$ 419	$ 3,251

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Nine Months Ended September 30, 2019
Segment Gross Profit	$ 3,251
Subscriber acquisition costs	(313)
Sales and marketing [d]	(591)
Engineering, design and development [d]	(169)
General and administrative [d]	(332)
Depreciation and amortization	(344)
Share-based payment expense	(171)
Acquisition and restructuring costs	(83)
Total other (expense) income	(350)
Consolidated income before income taxes	$ 898

(d) Share-based payment expense of $30 related to cost of services, $57 related to sales and marketing, $37 related to engineering, design and development and $47 related to general and administrative has been excluded.

CO Rem. Ex. E.00174

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of September 30, 2020, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three and nine months ended September 30, 2020 and 2019.

(19) Subsequent Events

Capital Return Program

For the period from October 1, 2020 to October 20, 2020 we repurchased 29 shares of our common stock on the open market for an aggregate purchase price of $168, including fees and commissions.

On October 6, 2020, our board of directors declared a quarterly dividend on our common stock in the amount of $0.014641 per share of common stock payable on November 30, 2020 to stockholders of record as of the close of business on November 6, 2020.

Stitcher Acquisition

On July 13, 2020, Sirius XM entered into an agreement with The E.W. Scripps Company and certain of its subsidiaries ("Scripps") to acquire the assets of Stitcher, a pioneer in podcast production, distribution, and ad sales. On October 16, 2020, Sirius XM closed the acquisition of the assets of Stitcher. Under the terms of the asset purchase agreement, Sirius XM paid Scripps $272 in cash, which amount includes a working capital adjustment. The agreement provides that Sirius XM will potentially make up to $60 in additional contingent payments to Scripps based on Stitcher achieving certain financial metrics in 2020 and 2021.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 22nd day of October 2020.

SIRIUS XM HOLDINGS INC.

By: /s/ Thomas D. Barry

Thomas D. Barry
Senior Vice President and Corporate Controller
(Chief Accounting Officer and Authorized Officer)

Exhibit 31

CERTIFICATION

I, James E. Meyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 of Sirius XM Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

October 22, 2020

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius XM Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James E. Meyer

James E. Meyer
Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

October 22, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CO Rem. Ex. F

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-38438

Spotify Technology S.A.

(Exact name of Registrant as specified in its charter)

Grand Duchy of Luxembourg
(Jurisdiction of incorporation)

42-44, avenue de la Gare
L- 1610 Luxembourg
Grand Duchy of Luxembourg
(address of principal executive offices)

Horacio Gutierrez
General Counsel
45 West 18th Street, 7th Floor
New York, New York 10011
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered, pursuant to Section 12(b) of the Act

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares (par value of €0.000625 per share)	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 180,856,081 Ordinary Shares, par value €0.000625 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

For the quarters ended December 31, 2018, 2017 and 2016, Premium ARPU was €4.89, €5.24, and €6.00, respectively. This represented a decrease of 7% and 13% from the preceding fiscal year quarters ended December 31. The decreases were due principally to growth of the Family Plan and movements in foreign exchange rates.

A. Operating Results

Revenue

	Year ended December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(in € millions, except percentages)						
Premium	4,717	3,674	2,657	1,043	28%	1,017	38%
Ad-Supported	542	416	295	126	30%	121	41%
Total	5,259	4,090	2,952	1,169	29%	1,138	39%

Premium revenue

For the years ended December 31, 2018 and 2017, Premium revenue comprised 90% of our total revenue. For the year ended December 31, 2018, as compared to 2017, Premium revenue increased €1,043 million or 28%. The increase was attributable primarily to a 36% increase in Premium Subscribers, partially offset by a decrease in Premium ARPU of 10%, as noted above.

For the years ended December 31, 2017 and 2016, Premium revenue comprised 90% of our total revenue. For the year ended December 31, 2017, as compared to 2016, Premium revenue increased €1,017 million or 38%. The increase was attributable primarily to a 46% increase in Premium Subscribers, partially offset by a decrease in Premium ARPU of 14%, as noted above.

Ad-Supported revenue

For the year ended December 31, 2018 and 2017, Ad-Supported revenue comprised 10% of our total revenue. For the year ended December 31, 2018, as compared to 2017, Ad-Supported revenue increased €126 million or 30%. This increase was due primarily to growth in the U.S., which grew €94 million or 35%. This increase was driven by our audio and video offerings, which both outpaced overall U.S. growth at 46% and 50% respectively. U.S. audio growth was boosted by growth in our programmatic channel (i.e., impressions sold using an automated online platform), which grew 108% and represented 12% of our U.S. audio Ad-Supported revenue. U.S. video growth was driven primarily by a 54% increase in the average rate per impression sold through our direct channel, as well as a 69% increase in the number of impressions sold through our programmatic channel.

For the year ended December 31, 2017 as compared to 2016, Ad-Supported revenue increased €121 million or 41%. This increase was due primarily to a 31% increase in the number of impressions sold, driven largely by the growth in our programmatic channel (i.e., impressions sold using an automated online platform), which accounted for 49% of sold impressions and grew revenue 100% year over year, accounting for 18% of our Ad-Supported revenue. Ad-Supported revenue growth also was driven by a 7% increase in the average rate per impression, as our premium video offerings outpaced overall growth, growing 74% and reaching 29% of Ad-Supported revenue.

Foreign exchange impact on total revenue

The general strengthening of the Euro relative to certain foreign currencies, primarily the U.S. dollar for the year ended December 31, 2018, as compared to 2017, had an unfavorable impact on our revenue. We estimate that total revenue for the year ended December 31, 2018 would have been approximately €202 million higher if foreign exchange rates had remained consistent with foreign exchange rates for the year ended December 31, 2017.

Cost of revenue

	Year ended December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(in € millions, except percentages)						
Premium	3,461	2,868	2,221	593	21%	647	29%
Ad-Supported	445	373	330	72	19%	43	13%
Total	3,906	3,241	2,551	665	21%	690	27%

Premium cost of revenue

For the year ended December 31, 2018, as compared to 2017, Premium cost of revenue increased €593 million, or 21%, and Premium cost of revenue as a percentage of Premium revenue decreased from 78% to 73%. The decreased percentage was largely driven by a reduction in content costs pursuant to new licensing arrangements, as well as decreased charges related to disputes with certain rights holders. The increase in Premium cost of revenue was driven by an increase in new Premium Subscribers resulting in higher royalty costs, payment transaction fees, and streaming delivery costs of €588 million, €22 million, and €14 million respectively. Included in royalty costs is a €12 million charge that relates to prior years. These increases were partially offset by the reduction of dispute charges with certain rights holders of €45 million and a benefit of €18 million for amounts expected to be recovered from rights holders for retroactive statutory rate changes.

For the year ended December 31, 2017, as compared to 2016, Premium cost of revenue increased €647 million, or 29%, and Premium cost of revenue as a percentage of Premium revenue decreased from 84% to 78%. This decrease in cost of revenue as a percentage of Premium revenue was driven largely by a reduction in content costs pursuant to new licensing agreements. The increase in cost of revenue was driven primarily by the increase in new Premium Subscribers, which led to higher royalty and streaming delivery costs of €632 million and €35 million, respectively. Additionally, there was an increase of €9 million related to discounted trial costs. These increases were partially offset by a reduction in payment fees of €26 million.

Ad-Supported cost of revenue

For the year ended December 31, 2018, as compared to 2017, Ad-Supported cost of revenue increased €72 million, or 19%, and Ad-Supported cost of revenue as a percentage of Ad-Supported revenue decreased from 90% to 82%. The percentage reduction was driven by a reduction in content costs pursuant to new licensing arrangements as well as decreased charges related to disputes with certain rights holders, and streaming delivery costs growing slower than revenues. The increase in Ad-Supported cost of revenue is driven by growth in advertising revenue resulting in higher royalties of €66 million. These increases were partially offset by the reduction of dispute charges with certain rights holders of €10 million.

For the year ended December 31, 2017, as compared to 2016, Ad-Supported cost of revenue increased €43 million, or 13%, and Ad-Supported cost of revenue as a percentage of Ad-Supported revenue decreased from 112% to 90%. This decreased percentage was driven largely by a reduction in content costs pursuant to new licensing agreements. The increase in cost of revenue was driven primarily by the increase in new Ad-Supported MAUs, which led to higher royalty and streaming delivery costs of €30 million and €5 million, respectively.

Foreign exchange impact on total cost of revenue

The general strengthening of the Euro relative to certain foreign currencies, primarily the U.S. dollar for the year ended December 31, 2018, as compared to 2017, had a favorable impact on our cost of revenue. We estimate that total cost for the year ended December 31, 2018 would have been approximately €159 million higher, if foreign exchange rates had remained consistent with foreign exchange rates for the year ended December 31, 2017.

Gross profit/(loss) and gross margin

	Year ended December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(in € millions, except percentages)						
Gross profit/(loss)							
Premium	1,256	806	436	450	56%	370	85%
Ad-Supported	97	43	(35)	54	126%	78	223%
Consolidated	1,353	849	401	504	59%	448	112%
Gross margin							
Premium	27%	22%	16%				
Ad-Supported	18%	10%	(12)%				
Consolidated	26%	21%	14%				

Premium gross profit/(loss) and gross margin

For the year ended December 31, 2018, as compared to 2017, Premium gross profit increased by €450 million and Premium gross margin increased from 22% to 27%. The increase in margin was largely driven by a reduction in content costs pursuant to new licensing arrangements, as well as decreased charges related to disputes with certain rights holders.

For the year ended December 31, 2017, as compared to 2016, Premium gross profit increased by €370 million and Premium gross margin increased from 16% to 22%. The increase was due to growth in revenue that outpaced the growth in content costs, due primarily to a decrease in content costs pursuant to new licensing agreements.

Ad-Supported gross profit/(loss) and gross margin

For the year ended December 31, 2018, as compared to 2017, Ad-Supported gross profit increased by €54 million to a gross profit of €98 million, and Ad-Supported gross margin increased from 10% to 18%. The margin increase was largely driven by a reduction in content costs pursuant to new licensing arrangements as well as decreased charges related to disputes with certain rights holders and streaming delivery costs growing slower than revenues.

For the year ended December 31, 2017, as compared to 2016, Ad-Supported gross loss changed by €78 million to a gross profit of €43 million, and Ad-Supported gross margin improved from (12)% to 10%. The increase was due to growth in revenue that outpaced the growth in content costs, due primarily to a decrease in content costs pursuant to new licensing agreements.

Consolidated operating expenses

Research and development

	Year ended December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(in € millions, except percentages)						
Research and development	493	396	207	97	24%	189	91%
As a percentage of revenue	9%	10%	7%				

For the year ended December 31, 2018 as compared to 2017, research and development costs increased €97 million, or 24%, as we continually enhance our platform to retain and grow our user base. The increase was due primarily to an increase in personnel-related costs of €47 million and facilities costs of €25 million, each resulting from increased headcount and leased office space to support our growth. There also was an increase in information technology costs of €15 million due to an increase in our usage of cloud computing services and additional software license fees. The increase in personnel-related costs was primarily due to increased salaries of €37 million and share-based payments of €18 million, offset by a decrease in social costs of €15 million.

For the year ended December 31, 2017 as compared to 2016, research and development costs increased €189 million, or 91%, as we continually enhance our platform in order to retain and grow our user base. The increase was due primarily to an increase in personnel-related costs of €131 million and facilities costs of €27 million, resulting from an increased headcount and leased office space to support our growth as compared to the prior fiscal year. The increase in personnel-related costs is due primarily to increased salaries of €68 million, social costs of €48 million, and share-based payments of €5 million.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Spotify Technology S.A.

By: /s/ Barry McCarthy
Name: Barry McCarthy
Title: Chief Financial Officer

Date: February 12, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-38438

Spotify Technology S.A.

(Exact name of Registrant as specified in its charter)

Grand Duchy of Luxembourg
(Jurisdiction of incorporation)

42-44, avenue de la Gare
L- 1610 Luxembourg
Grand Duchy of Luxembourg
(address of principal executive offices)

Horacio Gutierrez
Head of Global Affairs and Chief Legal Officer
ir@spotify.com
150 Greenwich Street, 63rd Floor
New York, New York 10007
(Name, E-mail and Address of Company Contact Person)

Securities registered or to be registered, pursuant to Section 12(b) of the Act

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Ordinary Shares (par value of €0.000625 per share)	SPOT	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 190,212,847 Ordinary Shares, par value €0.000625 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of

Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Ad-Supported MAUs were 199 million as of December 31, 2020. This represented an increase of 30% from the preceding fiscal year. Ad-Supported MAUs benefited from our continued investment in driving the growth of our Ad-Supported Service, both through geographic expansion and consumer marketing. Ad-Supported MAUs also benefited from continued investment in content and features on our platform, including featured playlists, artist marketing campaigns, podcasts, and original content, to drive increased Ad-Supported User engagement and customer satisfaction.

Premium ARPU

Premium ARPU is a monthly measure defined as Premium revenue recognized in the quarter indicated divided by the average daily Premium Subscribers in such quarter, which is then divided by three months. Annual figures are calculated by averaging Premium ARPU for the four quarters in such fiscal year.

The table below sets forth our average Premium ARPU for the years ended December 31, 2020, 2019, and 2018.

	Year ended December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Premium ARPU	€ 4.31	€ 4.72	€ 4.81	€ (0.41)	(9)%	€ (0.09)	(2)%

For the year ended December 31, 2020, Premium ARPU was €4.31. This represented a decrease of 9% from the preceding fiscal year. The decrease was due principally to a change in Premium Subscriber mix, reducing Premium ARPU by €0.27, and movements in foreign exchange rates, reducing Premium ARPU by €0.13.

The table below sets forth our average Premium ARPU for the quarters ended December 31, 2020, 2019, and 2018.

	Three months ended December 31, 2020			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Premium ARPU	€ 4.26	€ 4.65	€ 4.89	€ (0.39)	(8)%	€ (0.24)	(5)%

For the quarter ended December 31, 2020, Premium ARPU was €4.26. This represented a decrease of 8% from the preceding fiscal year quarter ended December 31. The decrease was due principally to movements in foreign exchange rates, reducing Premium ARPU by €0.24, and a change in Premium Subscriber mix, reducing Premium ARPU by €0.19.

A. Operating Results

Impact of COVID-19 pandemic

The COVID-19 pandemic has created significant volatility, uncertainty, and economic disruption. In response to the COVID-19 pandemic, we have taken a number of actions focused on protecting the health and safety of our employees, maintaining business continuity, and supporting the global music community, including extending the work-from-home arrangement for all employees that began in March 2020 until September 1, 2021, slowing the pace of hiring in 2020, and launching the Spotify COVID-19 Music Relief Project, through which we matched donations to organizations that offer financial relief to those in the music community most in need around the world for a total contribution of $10 million.

Although during the second half of 2020, we have started to see some return to pre-COVID-19 levels in our users' engagement with our Service, the full impact of the COVID-19 pandemic on our business, financial condition, and results of operations will depend on numerous evolving factors that we may not be able to accurately predict and that will vary by market, including the duration and scope of the pandemic, the impact of the pandemic on economic activity, and actions taken by governments, businesses, and individuals in response. For example, although our Ad-Supported revenue returned to growth during the second half of 2020, we have continued to face headwinds to our advertising business. Refer to Part II, Item 1A. "Risk Factors" in this document for further discussion of the impact of the COVID-19 pandemic on our business, operating results, and financial condition.

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Revenue

	Year ended December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
	(in € millions, except percentages)						
Premium	7,135	6,086	4,717	1,049	17 %	1,369	29 %
Ad-Supported	745	678	542	67	10 %	136	25 %
Total	7,880	6,764	5,259	1,116	16 %	1,505	29 %

Premium revenue

For the years ended December 31, 2020 and 2019, Premium revenue comprised 91% of our total revenue. For the year ended December 31, 2020, as compared to 2019, Premium revenue increased €1,049 million or 17%. The increase was attributable primarily to a 24% increase in Premium Subscribers. The year ended December 31, 2020 reflected a change in prior period estimates that reduced revenue by €16 million.

Ad-Supported revenue

For the years ended December 31, 2020 and 2019, Ad-Supported revenue comprised 9% of our total revenue. For the year ended December 31, 2020, as compared to 2019, Ad-Supported revenue increased €67 million or 10%. This increase was due primarily to an increase in revenue from podcasts of €27 million and our self-serve channel of €20 million. Although there was reduced advertising demand in the first half of the year due to the COVID-19 pandemic, Ad-Supported revenue recovered in the later half of the year.

Foreign exchange impact on total revenue

The general strengthening of the Euro relative to certain foreign currencies, primarily the U.S. dollar and Brazilian Real for the year ended December 31, 2020, as compared to 2019, had an unfavorable net impact on our revenue. We estimate that total revenue for the year ended December 31, 2020 would have been approximately €243 million higher if foreign exchange rates had remained consistent with foreign exchange rates for the year ended December 31, 2019.

Cost of revenue

	Year ended December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
	(in € millions, except percentages)						
Premium	5,126	4,443	3,451	683	15 %	992	29 %
Ad-Supported	739	599	455	140	23 %	144	32 %
Total	5,865	5,042	3,906	823	16 %	1,136	29 %

Effective January 1, 2020, all podcast content costs are recorded in the Ad-Supported segment. Certain reclassifications have been made to the amounts for prior years in order to conform to the current year's presentation.

Premium cost of revenue

For the year ended December 31, 2020, as compared to 2019, Premium cost of revenue increased €683 million, or 15%, and Premium cost of revenue as a percentage of Premium revenue decreased from 73% to 72%. The increase in Premium cost of revenue was driven primarily by an increase in new Premium Subscribers resulting in higher royalty costs, payment transaction fees, and streaming delivery costs of €682 million, €19 million, and €22 million, respectively, partially offset by a decrease in discounted trial costs of €33 million as we had relatively more users on free trials compared to discounted trials year-over-year. The year ended December 31, 2020 included a net €4 million benefit relating to changes in prior period estimates for rights holder liabilities. The year ended December 31, 2019 included charges related to disputes with certain rights holders of €8 million.

Ad-Supported cost of revenue

For the year ended December 31, 2020, as compared to 2019, Ad-Supported cost of revenue increased €140 million, or 23%, and Ad-Supported cost of revenue as a percentage of Ad-Supported revenue increased from 88% to 99%. The increase in Ad-Supported cost of revenue was driven primarily by an increase in podcast costs of €63 million, growth in advertising revenue and streams resulting in higher royalty costs of €47 million, and delivery costs of €18 million. The year ended December 31, 2020 included a charge of €7 million relating to changes in prior period estimates for rights holder liabilities.

Foreign exchange impact on total cost of revenue

The general strengthening of the Euro relative to certain foreign currencies, primarily the U.S. dollar and Brazilian Real for the year ended December 31, 2020, as compared to 2019, had a favorable net impact on our cost of revenue. We estimate that total cost for the year ended December 31, 2020 would have been approximately €185 million higher, if foreign exchange rates had remained consistent with foreign exchange rates for the year ended December 31, 2019.

Gross profit and gross margin

	Year ended December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
	(in € millions, except percentages)						
Gross profit							
Premium	2,009	1,643	1,266	366	22 %	377	30 %
Ad-Supported	6	79	87	(73)	(92)%	(8)	(9)%
Consolidated	2,015	1,722	1,353	293	17 %	369	27 %
Gross margin							
Premium	28 %	27 %	27 %				
Ad-Supported	1 %	12 %	16 %				
Consolidated	26 %	25 %	26 %				

Premium gross profit and gross margin

For the year ended December 31, 2020, as compared to 2019, Premium gross profit increased by €366 million and Premium gross margin increased from 27% to 28%. The increase in Premium gross margin was due primarily to a decrease in discounted trial costs.

Ad-Supported gross profit and gross margin

For the year ended December 31, 2020, as compared to 2019, Ad-Supported gross profit decreased by €73 million to a gross profit of €6 million, and Ad-Supported gross margin decreased from 12% to 1%. The decrease in Ad-Supported gross margin was due primarily to royalties derived from per play rates in certain markets, where an increase in streams outpaced revenue growth, and an increase in podcast costs. In addition, there was an increase in delivery costs as a percentage of revenue.

Consolidated operating expenses

Research and development

	Year ended December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
	(in € millions, except percentages)						
Research and development	837	615	493	222	36 %	122	25 %
As a percentage of revenue	11 %	9 %	9 %				

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Spotify Technology S.A.

By: /s/ Paul Vogel
Name: Paul Vogel
Title: Chief Financial Officer

Date: February 5, 2021

***

Exhibit 12.1

CERTIFICATIONS

I, Daniel Ek, certify that:

1. I have reviewed this annual report on Form 20-F of Spotify Technology S.A.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 5, 2021

/s/ Daniel Ek

Daniel Ek

Chief Executive Officer

Exhibit 12.2

CERTIFICATIONS

I, Paul Vogel, certify that:

1. I have reviewed this annual report on Form 20-F of Spotify Technology S.A.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 5, 2021

/s/ Paul Vogel

Paul Vogel

Chief Financial Officer

Exhibit 13.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002, 18 U.S.C. SECTION 1350

I, Daniel Ek, Chief Executive Officer of Spotify Technology S.A. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) The Annual Report on Form 20-F of the Company for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2021

/s/ Daniel Ek

Daniel Ek

Chief Executive Officer

Exhibit 13.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002, 18 U.S.C. SECTION 1350

I, Paul Vogel, Chief Financial Officer of Spotify Technology S.A. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) The Annual Report on Form 20-F of the Company for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2021

/s/ Paul Vogel

Paul Vogel

Chief Financial Officer

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-237908) pertaining to the Terms and Conditions Governing Director Stock Options 2020/2025 in Spotify Technology S.A., and Terms and Conditions Governing Director Restricted Stock Units 2020/2025 in Spotify Technology S.A.,

(2) Registration Statement (Form S-8 No. 333-235746) pertaining to the Terms and Conditions Governing Employee Stock Options 2020/2025 in Spotify Technology S.A., Terms and Conditions Governing Employee Restricted Stock Units 2020/2025 in Spotify Technology S.A., Terms and Conditions Governing Stock Options for Consultants 2020/2025 in Spotify Technology S.A., and Terms and Conditions Governing Restricted Stock Units for Consultants 2020/2025 in Spotify Technology S.A.,

(3) Registration Statement (Form S-8 No. 333-231102) pertaining to the Terms and Conditions Governing Director Stock Options 2019/2023 in Spotify Technology S.A. and Terms and Conditions Governing Director Restricted Stock Units 2019/2023 in Spotify Technology S.A.,

(4) Registration Statement (Form S-8 No. 333-229623) pertaining to the Terms and Conditions Governing Employee Stock Options 2019/2024 in Spotify Technology S.A., Terms and Conditions Governing Employee Stock Options 2019/2024 Interim in Spotify Technology S.A., and Terms and Conditions Governing Restricted Stock Units 2019/2024 in Spotify Technology S.A., and

(5) Registration Statement (Form S-8 No. 333-223908) pertaining to the Terms and Conditions Governing Employee Stock Options 2014/2019 in Spotify Technology S.A., Terms and Conditions Governing Employee Stock Options 2015/2020 in Spotify Technology S.A., Terms and Conditions Governing Employee Stock Options 2016/2021 in Spotify Technology S.A., Terms and Conditions Governing Employee Stock Options 2017/2022 in Spotify Technology S.A., Terms and Conditions Governing Employee Stock Options 2018/2023 in Spotify Technology S.A., Terms and Conditions Governing Restricted Stock Units 2018/2023 in Spotify Technology S.A., Terms and Conditions Governing Director Restricted Stock Units 2018/2022 in Spotify Technology S.A., and The Echo Nest Corporation 2007 Stock Option and Grant Plan;

of our reports dated February 5, 2021, with respect to the consolidated financial statements of Spotify Technology S.A. and the effectiveness of internal control over financial reporting of Spotify Technology S.A. included in this Annual Report (Form 20-F) of Spotify Technology S.A. for the year ended December 31, 2020.

/s/ Ernst & Young AB
Stockholm, Sweden
February 5, 2021

CO Rem. Ex. G

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Registre de Commerce et des Sociétés
Numéro RCS : B123052
Référence de dépôt : L170099844
Déposé et enregistré le 15/06/2017

Spotify Technology S.A.
42-44, avenue de la Gare
L- 1610 Luxembourg

R.C.S. Luxembourg B 123052

Consolidated financial statements as at December 31, 2016 and Independent auditor's report

Spotify Technology S.A.

The company is incorporated in Luxembourg.

Company number:	B 123052
Registered office:	42-44, avenue de la Gare L-1610, Luxembourg
Current directors:	Daniel Ek Martin Lorentzon Klaus Hommels Pär-Jörgen Pärsson Sean Parker Ted Sarandos Christopher Marshall
Auditors:	Ernst & Young SA 35E, avenue John F. Kennedy L-1855 Luxembourg Luxembourg

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SPOTIFY TECHNOLOGY S.A.
SOCIETE ANONYME
REGISTERED OFFICE: 42-44, AVENUE DE LA GARE
L-1610 LUXEMBOURG

R.C.S. LUXEMBOURG B 123 052

Management report from the Board of Directors on the consolidated financial statements for the year ended December 31, 2016.

Luxembourg, 22 May 2017

Dear Shareholder,

We have called you to a General Meeting with a view to submitting for your approval the consolidated financial statements of Spotify Technology S.A. (the "Company") and its subsidiaries (the "Group" or "Spotify") for the year ended December 31, 2016, which are annexed to this report as an essential component.

This is Spotify

Spotify is a digital music service that provides on-demand access to a catalogue of more than 30 million tracks. Our dream is to make all the world's music available instantly to everyone, wherever and whenever they want it. This is an audacious goal and one that reflects our high ambitions in what we set out to do.

Spotify is available as an ad-supported, free to the user service on all platforms - desktop, tablet and mobile. Spotify premium is our paid-for service and the ultimate music experience. Paying customers are able to listen on-demand and offline on all platforms, in high quality audio, with no ads.

Spotify makes it easy to discover, manage and share music with friends, while making sure that artists, songwriters and other rights holders are fairly compensated. We license and aggregate music from content owners, paying royalties to rights holders who in turn distribute these earnings to the creators of the music – the artists and songwriters themselves. We focus on constantly and consistently innovating to provide the best music product possible, with the overarching objective of driving more people to listen to more music.

We believe people should be able to enjoy music however and wherever they want, so we work with media and platform partners to both market and distribute our service - from media, technology, events and brand partners through to the telecoms, television, speaker hardware and automotive industries.

We believe our model supports profitability at scale. We have already proven that we've created real value for our users, and we know that the more time people spend with our product, the more likely they are to become paying subscribers. We believe we will generate substantial revenues as our reach expands and that, at scale, our margins will improve. We will therefore continue to invest relentlessly in our product and marketing initiatives to accelerate reach.

Music has mass market appeal - and as such, we believe we are just at the beginning of a much larger market opportunity, benefiting from significant first mover advantages. Subscription-only models have not yet proven scale and free user models, whilst scaling, have not proven a path to profitability. Spotify has the combined power of both.

Review of business and results: 2016

Our premium revenue and ad revenue increased 52% and 50%, respectively, year over year, and the number of monthly active users and paying subscribers increased from 91 million at the end of 2015 to approximately 126 million by the end of 2016, and paid subscribers increased from 28 million to 48 million.

We raised $1 billion from institutional investors. We raised this cash to ensure we have the flexibility to continue to invest and be opportunistic regardless of the state of the capital markets.

Our launch of the global new family plan resulted in strong subscriber growth. However, this strong growth did not materially impact revenue performance in the year as it was partially offset by the price reduction on the existing family plan subscriber base. We also had a strong intake of our holiday and summer campaigns, adding subscribers worldwide, in line with 2015.

CO Rem. Ex. G.00003

During the year we introduced Mobile Overlay ad unit and we now have a full suite of mobile ad offerings from audio, video and display creatives. We also launched sponsored playlists our first truly native ad offering and Programmatic Audio, a first to market global product that completes our programmatic offering from display, video and now audio.

The Group launched in Japan, which is the second biggest music market in the world, which we hope to be a meaningful contributor to revenue and subscribers in the future.

Annual overview	2016	2015	2014
Revenue ('000s)	€ 2,933,504	€ 1,928,548	€ 1,084,788

The Group showed a gross profit of €450.5 million compared to a gross profit last year of €264.5 million. This was primarily attributable to an increase in revenue from €1.9 billion to €2.9 billion.

The Operating loss for the year ending 2016 amounts to €349.4 million compared to €236.3 million last year. This is explained by substantial investments that have been made during the year, mostly in product development, international expansion, and a general increase in personnel.

Our Net loss for the year ending 2016 amounts to €539.2 million compared to €231.4 million last year. The increase over our operating loss primarily relates to the cost of debt and the impact of foreign exchange rates on our debt and investments.

The Group has restated its previously issued consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, and consolidated statement of cash flows at December 31, 2015 and December 31, 2014 and for the years then ended. The Group identified various misstatements relating to prior year financial statements. These errors have been corrected by restating each of the affected financial statement line items for the prior periods. Further information on the restatement are given in note 4 of the consolidated financial statements.

The Company did not repurchase any of its own shares and no dividends were declared during the years 2015 and 2016..

Significant events in 2017

In February 2017, the Group entered into a 17 year operating lease agreement to occupy approximately 380,000 square feet of 4 World Trade Center in New York, New York, United States of America. The total estimated base rent payments over the life of the lease are approximately €480 million. The Group will also incur costs to build out the floors to its specifications. We have committed approximately €26 million for a letter of credit as security on the lease.

Subsequent to year end, the Group completed acquisitions of four privately held companies for cash and stock totaling approximately €39 million.

Subsequent to year end, the Group signed multi-year license agreements with certain music labels and publishers. Included in these agreements are minimum guarantee commitments of approximately €2 billion for royalty payments over the next two years.

Principal risks and uncertainties

Streaming music is an emerging market, which makes it difficult to evaluate our current and future prospects. We face strong competition both for users, listening hours, and advertiser spending, and we face competition from players with substantial resources at their disposal. We depend on acquiring content licenses from a limited number of major and minor content owners and other rights holders in order to provide our service. We are dependent on attracting and retaining users, and on successfully selling advertising and converting users to become paying subscribers, in order to generate sufficient revenue to be profitable. We depend on key personnel to develop great products and services, as well as to operate our business, and if we are unable to retain, attract, and integrate qualified personnel, our ability to successfully grow our business could be harmed. If we cannot maintain Spotify's culture as we grow, we could lose the innovation, teamwork, and focus that contribute crucially to our business.

Financial Risk Management

Our operations are exposed to financing and financial risks, which are managed under the control and supervision of the Board of Directors of the Company. To manage these risks efficiently, we have established guidelines in the form of a treasury policy that serves as a framework for the daily financial operations of the Group. The treasury policy stipulates the rules and limitations for the management of financial risks throughout the Group.

Financial risk management is centralized within Group Treasury who is responsible for the management of financing and financial risks. Group Treasury manages and executes the financial management activities, including monitoring the exposure of financial risks, cash management, and maintaining a liquidity reserve, and it provides certain financial services to the entities of the Group. Group Treasury operates within the limits and policies authorized by the Board of Directors.

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Further information on financial risks and our management of them are given in note 23 of the consolidated financial statements.

Technology and development

The Group intends to continue making significant investments in developing new products and enhancing the functionality of our existing product. Product development expenses are primarily comprised of costs incurred for development of products related to the Group's platform and service, as well as new advertising products and improvements to the Group's mobile application, website, and streaming services. The costs incurred include related employee compensation and benefits, facility costs, and consulting costs.

Daniel Ek
A Director

Pär-Jörgen Pärsson
B Director

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Building a better working world

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L-2017 Luxembourg

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TVA LU 16063074

Independent auditor's report

To the Shareholders of
Spotify Technology S.A.
42-44, avenue de la Gare
L-1610 Luxembourg

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 21 April 2016, we have audited the accompanying consolidated financial statements of Spotify Technology S.A., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of operations, the consolidated statement of comprehensive income/(loss), the consolidated statement of changes in equity/(deficit), the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Spotify Technology S.A. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 4 *Correction of errors* which provides details of the impact arising from the restatement of comparative information.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Áine Hearty

Luxembourg, 22 May 2017

Consolidated statement of operations

for the year ended December 31
(in € thousands except per share data)

	Note	2016	2015 Restated*	2014 Restated*
Revenue	6	2,933,504	1,928,548	1,084,788
Cost of revenue		2,482,973	1,664,085	910,500
Gross profit		**450,531**	**264,463**	**174,288**
Product development		206,853	136,107	114,248
Sales and marketing		417,911	258,723	184,009
General and administrative		175,179	105,926	67,165
		799,943	**500,756**	**365,422**
Operating loss		**(349,412)**	**(236,293)**	**(191,134)**
Finance income	9	152,399	35,756	28,539
Finance costs	9	(336,632)	(26,239)	(19,450)
Share in earnings of associates and joint ventures		(2,054)	207	(435)
Finance income/(costs) - net		**(186,287)**	**9,724**	**8,654**
Loss before tax		**(535,699)**	**(226,569)**	**(182,480)**
Income tax expense	10	3,511	4,812	5,642
Net loss attributable to owners of the parent		**(539,210)**	**(231,381)**	**(188,122)**
Net loss per share attributable to owners of the parent				
Basic and diluted	11	(145.38)	(65.20)	(55.99)
Weighted-average ordinary shares outstanding				
Basic and diluted	11	3,709	3,549	3,360

* *Refer to note 4.*

The accompanying notes are an integral part of these consolidated financial statements.

CO Rem. Ex. G.00009

Consolidated statement of comprehensive income/(loss)

for the year ended December 31
(in € thousands)

	Note	2016	2015 Restated*	2014 Restated*
Net loss attributable to owners of the parent		**(539,210)**	**(231,381)**	**(188,122)**
Other comprehensive income/(loss):				
Items that may be subsequently reclassified to consolidated statement of operations (net of tax):				
Loss in the fair value of available for sale financial assets	**23**	(4,175)	—	—
Exchange differences on translation of foreign operations		(13,295)	502	1,956
Other comprehensive income/(loss) for the year (net of tax)		**(17,470)**	**502**	**1,956**
Total comprehensive loss for the year attributable to owners of the parent		**(556,680)**	**(230,879)**	**(186,166)**

* *Refer to note 4.*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at December 31
(in € thousands)

	Note	2016	2015 Restated*	As at January 1, 2015
Assets				
Non-current assets				
Property and equipment	12	84,839	81,094	50,710
Intangible assets including goodwill	13	79,752	73,151	58,529
Investment in associates and joint ventures	26	—	1,430	—
Restricted cash	14	21,170	19,956	9,310
Other non-current assets		1,728	458	740
Deferred tax assets	10	3,177	4,470	3,906
		190,666	**180,559**	**123,195**
Current assets				
Trade and other receivables	15	299,654	244,298	135,483
Income tax receivable	10	5,841	2,780	1,036
Short term investments	23	830,285	—	—
Cash and cash equivalents	23	754,904	597,392	206,492
Other current assets		17,897	25,773	8,142
		1,908,581	**870,243**	**351,153**
Total assets		**2,099,247**	**1,050,802**	**474,348**
(Deficit)/Equity and liabilities				
(Deficit)/Equity				
Share capital	16	94	91	85
Other paid in capital	16	829,608	796,853	404,153
Other reserves	16	121,629	85,451	55,024
Accumulated deficit		(1,193,713)	(654,503)	(423,122)
(Deficit)/Equity attributable to owners of parent		**(242,382)**	**227,892**	**36,140**
Non-current liabilities				
Convertible notes	18, 23	1,106,354	—	—
Accrued expenses and other liabilities	21	10,000	16,130	11,690
Provisions	22	3,660	8,331	2,090
Deferred tax liabilities	10	49	—	160
		1,120,063	**24,461**	**13,940**
Current liabilities				
Trade and other payables	19	201,464	119,141	105,952
Income tax payable	10	5,675	5,338	11,509
Deferred revenue	20	150,646	91,894	62,688
Accrued expenses and other liabilities	21	672,766	484,554	221,374
Provisions	22	57,350	15,142	16,139
Derivative liabilities	23	133,665	82,380	6,606
		1,221,566	**798,449**	**424,268**
Total liabilities		**2,341,629**	**822,910**	**438,208**
Total (deficit)/equity and liabilities		**2,099,247**	**1,050,802**	**474,348**

* *Refer to note 4.*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity/(deficit)

(in € thousands, except share information)

	Note	Number of ordinary shares	Share capital	Other paid in Capital	Other Reserves	Accumulated Deficit	(Deficit)/Equity Attributable to Owners of Parent
Balance at January 1, 2014		**3,237,576**	**81**	**293,519**	**35,364**	**(227,418)**	**101,546**
Adjustment on correction of errors (net of tax)	**4**	—	—	—	(10)	(7,582)	(7,592)
Balance at January 1, 2014, as restated*		**3,237,576**	**81**	**293,519**	**35,354**	**(235,000)**	**93,954**
Loss for the year			—	—	—	(188,122)	(188,122)
Other comprehensive income			—	—	1,956	—	1,956
Issuance of shares upon exercise of stock options	**16**	29,117	1	7,593	—	—	7,594
Issuance of shares, net of costs	**16**	66,225	2	58,425	—	—	58,427
Issue of ordinary shares related to business combination	**5**	61,897	1	44,571	—	—	44,572
Share-based payments	**17**		—	45	17,125	—	17,170
Income tax impact associated with share-based payments	**10**		—	—	589	—	589
Balance at December 31, 2014, as restated*		**3,394,815**	**85**	**404,153**	**55,024**	**(423,122)**	**36,140**
Loss for the year			—	—	—	(231,381)	(231,381)
Other comprehensive income			—	—	502	—	502
Issuance of shares upon exercise of stock options and restricted stock units	**16**	20,574	—	6,019	—	—	6,019
Issuance of shares, net of costs	**16**	237,122	6	386,681	—	—	386,687
Share-based payments	**17**		—	—	28,633	—	28,633
Income tax impact associated with share-based payments	**10**		—	—	1,292	—	1,292
Balance at December 31, 2015, as restated*		**3,652,511**	**91**	**796,853**	**85,451**	**(654,503)**	**227,892**
Loss for the year			—	—	—	(539,210)	(539,210)
Other comprehensive loss			—	—	(17,470)	—	(17,470)
Issuance of shares upon exercise of stock options and restricted stock units	**16**	95,589	3	32,755	—	—	32,758
Share-based payments	**17**		—	—	53,360	—	53,360
Income tax impact associated with share-based payments	**10**		—	—	288	—	288
Balance at December 31, 2016		**3,748,100**	**94**	**829,608**	**121,629**	**(1,193,713)**	**(242,382)**

* *Refer to note 4.*

The accompanying notes are an integral part of these consolidated financial statements.

CO Rem. Ex. G.00012

Consolidated statement of cash flows

for the year ended December 31
(in € thousands)

	Note	2016	2015 Restated*	2014 Restated*
Operating activities				
Net loss		(539,210)	(231,381)	(188,122)
Adjustments to reconcile net loss to net cash flows				
Depreciation of property and equipment	12	32,244	25,973	15,730
Amortization of intangible assets	13	5,665	4,157	3,423
Share-based payment transaction expense	17	52,880	28,149	16,976
Impairment loss on trade receivables	15	18,369	6,693	3,252
Loss on disposal of equipment	12	842	—	359
Finance income	9	(152,399)	(35,756)	(28,539)
Finance costs	9	336,632	26,239	19,450
Income tax expense	10	3,511	4,812	5,642
Share in earnings of associates and joint ventures		2,054	(207)	435
Net foreign exchange (gains)/losses		42,028	(33,098)	(35,260)
Changes in working capital:				
Increase in trade receivables and other assets		(63,282)	(128,489)	(39,502)
Increase in trade and other liabilities		243,895	250,608	161,249
Increase/(decrease) in deferred revenue		77,862	26,355	(4,881)
Increase in provisions		38,079	20,456	444
Interest received		4,883	1,501	1,356
Interest paid		(214)	(630)	(1,857)
Income tax paid		(4,019)	(3,508)	(3,673)
Net cash flows from/(used in) operating activities		**99,820**	**(38,126)**	**(73,518)**
Investing activities				
Business combinations, net of cash acquired	5	(6,580)	(7,259)	(2,053)
Investment in associates and joint ventures	26	(624)	(479)	—
Purchase of equipment	12	(26,555)	(44,254)	(15,649)
Purchase of intangibles	13	(3,042)	(4,958)	—
Purchase of short term investments	23	(1,397,225)	—	—
Sales and maturities of short term investments	23	608,505	—	—
Change in restricted cash	14	(771)	(10,395)	(3,688)
Change in other non-current assets		—	—	167
Net cash flows used in investing activities		**(826,292)**	**(67,345)**	**(21,223)**
Financing activities				
Finance lease payments		(5,356)	(4,434)	(801)
Proceeds from issuance of convertible notes, net of costs	18	861,301	—	—
Proceeds from issuance of new shares, net of costs	16	—	474,476	58,427
Proceeds from the issuance of warrants	16	26,872	—	—
Proceeds from exercise of share options	17	32,758	6,019	7,594
Net cash flow from financing activities		**915,575**	**476,061**	**65,220**
Net increase/(decrease) in cash and cash equivalents		**189,103**	**370,590**	**(29,521)**
Cash and cash equivalents at January 1	23	597,392	206,492	217,968
Net exchange gains/(losses) on cash and cash equivalents		(31,591)	20,310	18,045
Cash and cash equivalents at December 31	23	**754,904**	**597,392**	**206,492**

* *Refer to note 4.*

The accompanying notes are an integral part of these consolidated financial statements

CO Rem. Ex. G.00013

1. Corporate information

Spotify Technology S.A. (the "Company") is a private limited company incorporated and domiciled in Luxembourg. On March 15, 2016 the Company moved its registered office from 18, Rue de l'Eau, L-1449, Luxembourg to 42-44 avenue de la Gare, L1610, Luxembourg.

The principal activity of the Company and its subsidiaries (the "Group") is the operation of a digital music and media platform providing instant access to millions of songs through high-quality mobile, tablet, desktop, and other device applications including game consoles, car audio systems, and connected speakers. Consumers can download the Spotify application to access a catalog of music and non-music content through a unique streaming protocol. Spotify is available either as a free-to-user, ad-supported service, or as a paid-for subscription service. The Group depends on acquiring content licenses from a number of major and minor content owners and other rights holders in order to provide its service.

The consolidated financial statements of the Group for the year ended December 31, 2016 were authorized for issue with a resolution of the directors on May 22, 2017. Under Luxembourg law the consolidated financial statements are approved by the shareholders at the annual general meeting.

2. Summary of significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements of Spotify Technology S.A. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements are also in compliance with IFRS as endorsed by the European Union ("EU") for all periods presented.

The consolidated financial statements have been prepared on a historical cost basis, except for available for sale securities, convertible senior notes ("convertible notes"), and derivative financial instruments, which have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the application of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a greater degree of judgment or complexity, or areas in which assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The consolidated financial statements provide comparative information in respect of the previous periods. Further, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional statement of financial position as of January 1, 2015 is presented in these consolidated financial statements due to the correction of errors retrospectively. See note 4.

(b) Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(c) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence but not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

CO Rem. Ex. G.00014

Notes to the 2016 consolidated financial statements

The Group accounts for its investments in associated companies and joint ventures using the equity method whereby the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associates and joint ventures since the acquisition date.

The Group determines, at each reporting date, whether there is objective evidence that its investment in its associated companies or joint ventures are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and the carrying amount of the investment. Any gain or loss resulting from the dilution of the Group's interest in associates and joint ventures where significant influence and joint control, respectively, is retained is recognized in the consolidated statement of operations in "Share in earnings of associates and joint ventures."

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the consolidated statement of operations within finance income or finance costs.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into Euro as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each statement of operation are translated at average exchange rates, and
- All resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the operation and translated at the closing rate at each reporting date.

(e) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of applicable value-added tax, sales tax, refunds, rebates, and discounts.

The Group recognizes revenue when all of the following conditions have been satisfied:

- 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 of 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.

In certain instances, revenue recognition is impacted by estimates of relative selling prices as well as estimates of allowances, discounts, and rebates. These estimates are supported by historical data. While management believes that the estimates used are appropriate, differences in actual experience or changes in estimates may affect the Group's future results.

CO Rem. Ex. G.00015

Notes to the 2016 consolidated financial statements

Subscription revenue

The Group generates subscription revenue from the sale of premium services comprising unlimited music streaming without advertisements. Premium services are sold to direct subscribers and to partners who are generally telecommunications companies that bundle the subscription with their own services or collect payment for the standalone subscriptions from their end customers.

Direct premium services are based on a flat fee and are paid in advance. Premium services collected through third parties are based on a flat fee and are paid in arrears. Revenue from these services is recognized on a straight-line basis over the subscription period.

Premium partner services are based on a per-subscriber rate in a negotiated partner agreement and may include minimum guarantees for the number of subscriptions that will be purchased from the Group. For partner agreements where the minimum guarantee is not met, revenue for the difference between the actual subscriptions purchased and minimum commitment amount is not recognized until the end of the term. Minimum non-refundable guarantees paid in advance and other advance payments are deferred and recognized based on the number of actual premium partner subscribers.

Advertising revenue

The Group's advertising revenue is primarily generated through display, audio, and video advertising delivered through advertising impressions. The Group enters into arrangements with advertising agencies that purchase advertising on the Group's platform on behalf of the agencies' clients. These advertising arrangements are typically sold on a cost per thousand basis and are evidenced by an Insertion Order ("IO") that specifies the terms of the arrangement such as the type of ad product, pricing, insertion dates, and number of impressions in a stated period. Revenue is recognized upon delivery of impressions on a proportionate performance basis.

Additionally, the Group generates revenue through arrangements with certain supplier support platforms to distribute advertising inventory on their ad exchange platforms for purchase on a cost per thousand basis. Revenue is recognized when impressions are delivered on the platform.

Barter transactions

The Group enters into barter transactions involving advertising services and follows IAS 18, *Revenue* and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. Such barter transactions should only be recognized if the fair value of the consideration received can be measured reliably. The Group did not recognize revenue and expenses for advertising barter transactions as the transactions are considered mutually beneficial to both parties and/or the fair value of the consideration received cannot be measured reliably.

Gross versus net

The Group reports revenue on a gross or net basis based on management's assessment of whether it acts as a principal or agent in the transaction. To the extent the Group acts as the principal, revenue is reported on a gross basis. The determination of whether the Group acts as a principal or an agent in a transaction is based on an evaluation of whether it has the substantial risks and rewards associated with the rendering of services under the terms of an arrangement.

Deferred revenue

Deferred revenue is mainly comprised of subscription fees collected that have not been recognized and services in which the applicable revenue recognition criteria have not been met.

Accrued premium revenue

Accrued premium revenue relates to the sale of subscriptions to Partner Subscribers or amounts due from third parties who collect on the Group's behalf, which are invoiced and paid in arrears. Revenue is recognized as the services are performed.

(f) Business Combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognized as goodwill.

Acquisition-related costs, other than those incurred for the issuance of debt or equity instruments, are charged to the consolidated statement of operations as they are incurred.

(g) Cost of revenue

Cost of revenue consists primarily of royalty and distribution costs related to content streaming. The Group incurs royalty costs paid to certain music record labels and other rights holders for the right to stream music to the Group's users. Royalties are calculated using negotiated rates in accordance with master license agreements and are based on either subscription and advertising revenue earned or user/usage measures or a combination of these. The Group has certain arrangements whereby royalty costs are paid in advance or are subject to minimum guaranteed amounts. An accrual is established when actual royalty costs to be incurred during a contractual period are expected to fall short of the minimum guaranteed amounts. For minimum guarantee arrangements for which the Group cannot reliably predict the underlying expense, the Group will expense the minimum guarantee on a straight-line basis over the term of the arrangement. The Group also has certain royalty arrangements where it would have to make additional payments if the royalty rates were below those paid to other similar licensors (most favored nation clauses). An accrual and expense is recognized when it is probable that the Group will make additional royalty payments under these terms. The expense related to these accruals is recognized in cost of revenue. Cost of revenue also includes credit card and payment processing fees for subscription revenue, customer service, certain employee compensation and benefits, and facility and equipment costs.

(h) Product development expenses

Product development expenses are primarily comprised of costs incurred for development of products related to the Group's platform and service, as well as new advertising products and improvements to the Group's mobile application, desktop, and streaming services. The costs incurred include related employee compensation and benefits, facility costs, and consulting costs.

(i) Sales and marketing expenses

Sales and marketing expenses are primarily comprised of employee compensation and benefits, events and trade shows, public relations, branding, consulting expenses, customer acquisition costs, advertising, the cost of working with record labels and artists to promote the availability of new releases on the Group's platform, and the costs of providing free and discounted trials of the premium service.

(j) General and administrative expenses

General and administrative expenses are comprised primarily of employee compensation and benefits for functions such as finance, accounting, analytics, legal, human resources, consulting fees, and other costs including facility and equipment costs.

(k) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of operations except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

(ii) *Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- Temporary differences related to investments in subsidiaries, associates, and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary differences, and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(iii) *Uncertain tax positions*

In determining the amount of current and deferred income tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, interest or penalties may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(l) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes any expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group.

The Group adds to the carrying amount of an item of property and equipment the cost of replacing parts of such an item if the replacement part is expected to provide incremental future benefits to the Group. All repairs and maintenance are charged to the consolidated statement of operations during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method as follows:

- Property and equipment: 3 to 5 years
- Leasehold improvements: shorter of the lease term or useful life

The assets' residual values, useful lives, and depreciation methods are reviewed annually and adjusted prospectively if there is an indication of a significant change. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of operations when the asset is derecognized.

(m) Intangible assets

Acquired intangible assets other than goodwill comprise acquired developed technology and patents. At initial recognition, intangible assets acquired in a business combination are recognized at their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses.

The Group recognizes internal development costs as intangible assets only when the following criteria are met: the technical feasibility of completing the intangible asset exists, there is an intent to complete and an ability to use or sell the intangible asset, the intangible asset will generate probable future economic benefits, there are adequate resources available to complete the development and to use or

sell the intangible asset, and there is the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, typically 2 to 5 years and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization of intangible assets is recognized in the consolidated statement of operations in the expense category consistent with the function of the intangible assets.

(n) Goodwill

Goodwill is the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. Goodwill is tested annually for impairment or more regularly if certain indicators are present. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination and represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is evaluated for impairment by comparing the recoverable amount of the Group's CGUs to the carrying amount of the CGU to which the goodwill relates. If the recoverable amount is less than the carrying amount an impairment charge is determined.

The recoverable amount of the CGUs is based on fair value less costs of disposal. The Group believes reasonable estimates and judgments have been used in assessing the recoverable amounts.

(o) Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized in the consolidated statement of operations consistent with the function of the assets, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal each reporting period.

(p) Financial instruments

(i) *Financial assets*

Initial recognition and measurement

The Group's financial assets are comprised of cash and cash equivalents, short term investments, trade and other receivables, restricted cash, and other non-current assets. All financial assets are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset. Purchases and sales of financial assets are recognized on the settlement date; the date that the Group receives or delivers the asset. The Group classifies its financial assets primarily as cash and cash equivalents, receivables and available for sale financial assets. Receivables are non-derivative financial assets, other than short term investments described below, with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for those with maturities greater than 12 months after the reporting period.

For more information on receivables, refer to note 15.

Short term investments classified as available for sale financial assets are those that are neither classified as held for trading nor designated at fair value through the consolidated statement of operations. The securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions (therefore not recognized at amortized cost). These are classified as current assets.

Subsequent measurement

After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in other reserves within equity until the investment is derecognized, at which time, the cumulative gain or loss is recognized in finance income/costs, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale reserve to the consolidated statement of operations in finance costs. Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest method.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset. Evidence of impairment include that debtors, individually or collectively, default in payments or other indications that they experience significant financial difficulty, including the probability of entering bankruptcy or other financial reorganization, or a significant or prolonged decline in the fair value of an investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If there is evidence of impairment for any of the Group's financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of operations.

In the case of investments classified as available for sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of operations. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income.

For impairment losses recognized, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statement of operations.

(ii) *Financial liabilities*

Initial recognition and measurement

The Group's financial liabilities are comprised of trade and other payables, other liabilities (borrowings and finance lease payments), convertible notes, and derivative liabilities (contingent options and warrants). All financial liabilities are recognized initially at fair value and, in the case of convertible notes and borrowings, net of directly attributable transaction costs.

The Group accounts for the convertible notes in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, 'fair value option'. Under this approach, the convertible notes are accounted for in their entirety at fair value, with any change in fair value after initial measurement being recorded in the consolidated statement of operations and the transaction costs are effectively immediately expensed.

The Group accounts for its warrants as a financial liability at fair value. In accordance with IAS 32, *Financial Instruments: Presentation*, the Group determined that the warrants were precluded from equity classification, because while they contain no contractual obligation to deliver cash or other financial instruments to the holders other than the Company's own shares, the exercise price of the warrants are in US$ and not the Company's functional currency. Therefore, the warrants do not meet the requirements that they be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Subsequent measurements

Other financial liabilities

After initial recognition, payables and borrowings are subsequently measured at amortized cost using the effective interest rate ("EIR") method. The EIR amortization is included in finance costs in the consolidated statement of operations. Gains and losses are recognized in the consolidated statement of operations when the liabilities are derecognized.

Payables and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Fees paid to secure loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as pre-payment for liquidity services and amortized over the period of the facility.

Financial liabilities at fair value through profit or loss

After initial recognition, financial liabilities at fair value through the profit or loss are subsequently remeasured at fair value at the end of each reporting period with changes in fair value recognized in finance income or finance costs in the consolidated statement of operations.

Derecognition

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires.

(iii) *Fair Value Measurements*

For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which inputs are based on quoted prices for identical or similar instruments in markets that are not active, quoted prices for similar instruments in active markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the asset or liability
- Level 3: techniques which use inputs that have a significant effect on the recognized fair value that are not based on observable market data

The Group maintains policies and procedures to determine the fair value of financial assets and liabilities using what it considers to be the most relevant and reliable market participant data available. In determining the fair value of financial assets and liabilities employing Level 3 inputs; the Group considers such factors as the current interest rate, equity market, currency and credit environments, expected future cash flows, the probability of certain future events occurring, and other published data. The Group performs a variety of procedures to assess the reasonableness of its fair value determinations including the use of third parties.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit at banks and on hand and short term deposits with a maturity of three months or less from the date of purchase that are not subject to restrictions. Cash deposits that have restrictions governing their use are classified as restricted cash, current or non-current, based on the remaining length of the restriction.

The Group classifies highly liquid investments with maturities of three months or less at the date of purchase as cash equivalents.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above.

(r) Short term investments

Starting April 2016, the Group invests in a variety of instruments, such as commercial paper, money market funds, corporate debt securities, collateralized reverse purchase agreements, and government and government agency debt securities. Part of these investments are held in short duration fixed income portfolios. The average duration of these portfolios is two years. All investments are governed by an investment policy and are held in highly-rated counterparties. Separate credit limits are assigned to each counterparty in order to minimize risk concentration.

These investments are classified as available for sale securities and are carried at fair value with the unrealized gains and losses reported as a component of equity. Management determines the appropriate classification of investments at the time of purchase and reevaluates the available for sale designations as of each reporting date. The available for sale debt securities with maturities greater than twelve months are classified as short term when they are intended for use in current operations. The cost basis for investments sold is based upon the specific identification method.

(s) Share capital

Ordinary shares are classified as equity.

Equity instruments are initially measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

For the years ended December 31, 2015, 2013 and 2012, the Group issued equity instruments that were part of a compound transaction whereby additional shares would be issued to the shareholders upon the occurrence of certain events (see note 16). The embedded derivatives were separated from the host contract and the resulting derivative liabilities were initially measured at fair value. The derivative liabilities are remeasured at fair value through the consolidated statement of operations at each reporting period. The difference between the consideration received for the equity instruments and the fair value of the embedded derivatives represents the equity components of the transaction. Transaction costs are allocated to the liability derivatives and equity components in proportion to their initial carrying amounts.

(t) Share-based payments

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in consideration for equity instruments.

The cost of equity-settled transactions with employees is determined by the fair value at the date of grant using an appropriate valuation model. The cost is recognized, together with a corresponding credit to other reserves in equity over the period in which the performance and service conditions are fulfilled. The cost of equity-settled transactions with non-employees for which services are rendered over a vesting period is determined by the average fair value over the period the services are received.

The cumulative expense recognized for equity-settled transactions with employees at each reporting date until the vesting date reflects the Group's best estimate of the number of equity instruments that will ultimately vest. The expense for a period represents the movement in cumulative expense recognized at the beginning and end of that period, and is recognized in employee shared-based payments. When the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the grantee as measured at the date of modification. There have been no material modifications to any share-based payment transactions during 2016, 2015, and 2014.

Social costs are payroll taxes associated with employee salaries and benefits, including share based compensation. Social costs in connection with the grant are accrued over the vesting period based on the intrinsic value of the award that has been earned at the end of each reporting period. The amount of the liability reflects the amortization of the award and the impact of expected forfeitures. The social cost rate at which the accrual is made follows the tax domicile within which other compensation charges for a grantee are recognized.

The assumptions and models used for estimating fair value for share based payment transactions are disclosed in note 17.

(u) Employee benefits

The Group provides defined contribution plans to its employees. The Group pays contributions to publicly and privately administered pension insurance plans on a mandatory or contractual basis. The Group has no further payment obligations once the contributions have been paid. Contributions to defined contribution plans are expensed when employees provide services. The Group's post-employment schemes do not include any defined benefit plans.

Notes to the 2016 consolidated financial statements

(v) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(w) Leases

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. The Group leases certain items of property and equipment. Leases in which substantially all the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of operations on a straight-line basis over the period of the leases.

Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the repayment of the liability and finance charges. The corresponding lease obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the consolidated statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

New and amended standards and interpretations adopted by the Group

None of the new or revised standards and interpretations adopted for the first time on January 1, 2016 had a material impact on the consolidated financial statements of the Group.

New standards and interpretations issued not yet effective

Recently issued new or revised/amended standards and interpretations effective for the Group on or after January 1, 2017, are as follows:

In July 2014, the IASB published the final version of IFRS 9, *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9, *Financial Instruments*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The EU has endorsed the standard in November 2016. The Group is assessing the impact of IFRS 9, *Financial Instruments*.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The EU has endorsed the standard in September 2016. The Group is currently in the process of evaluating the impact of the adoption of IFRS 15, *Revenue from Contracts with Customers*, and the transition alternatives on its consolidated financial statements. The Group has completed its assessment on the majority of its revenue transactions and do not believe there will be a material impact on direct subscription revenue recognition. The Group is continuing to evaluate the impact of the standard on certain transactions, as well as the impact on its business processes, systems, and controls. The Group expects to complete its evaluation during 2017, and will continue evaluation of IFRS 15, including how it may impact new arrangements it enters into as well as new or emerging interpretations of the standard, through to the date of adoption.

In January 2016, the IASB published IFRS 16, *Leases*, its new leasing standard which will replace the current guidance in IAS 17, *Leases*, and interpretations IFRIC 4, SIC-15 and SIC-27. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. The EU has not yet endorsed the standard. The Group expects the valuation of right-of-use assets and lease liabilities, previously described as operating leases, to be the present value of its forecasted future lease commitments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation

expense on the right-of-use asset. The Group is continuing to assess the overall impacts of the new standard, including the discount rate to be applied in these valuations.

In January 2016, the IASB issued *Disclosure Initiative* (Amendments to IAS 7) which amended IAS 7, *Statement of Cash Flows*. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments apply to annual periods beginning on or after January 1, 2017, with earlier application permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods. The EU has not endorsed the amendments yet. The Group is assessing what information it has to provide to comply with the amendments to IAS 7, *Statement of Cash Flows*.

In January 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)* which amended IAS 12, *Income Taxes*. The amendments primarily were issued to clarify the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2017, with early application permitted. The EU has not endorsed the amendments yet. The Group is assessing the impact of the amendments to IAS 12, *Income Taxes*.

There are no other IFRS or IFRIC interpretations that are not effective, that are expected to have a material impact on the Group.

3. Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities in the consolidated financial statements and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The areas where assumptions and estimates are significant to the consolidated financial statements are:

(i) Share-based payments – the Group measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is estimated using a model which requires the determination of the appropriate inputs. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in note 17.

(ii) Convertible notes, warrants, and embedded derivatives in equity transactions – the fair value of the Group's convertible notes, warrants, and derivatives are estimated using valuation techniques using inputs based on management's judgment and conditions that existed at each reporting date. The assumptions and models used for estimating the fair value of the instruments are disclosed in note 23.

(iii) The group has fiscal loss carryforwards. At period end, the group investigates the possibility of capitalizing deferred tax assets with regard to the loss carryforwards. Deferred tax assets related to loss carry-forwards are recognized only in those cases where it is probable and there is objective evidence that the Group will generate future taxable income to which the loss carryforward can be utilized. See note 10.

(iv) The Group allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. See note 5.

(v) In accordance with the accounting policy described in note 13, Intangible assets, the Group annually performs an impairment test regarding goodwill. The fair value of the CGUs are estimated using valuation techniques using inputs based on management's judgment and conditions that existed at the testing date. The assumptions and models used for estimating the fair value are disclosed in note 13.

(vi) Royalties – the Group's agreements and arrangements with rights holders for the content used on its platform are complex. Some rights holders have allowed the use of their content on the platform while negotiations of the terms and

conditions are ongoing. The determination of royalties' payable to rights holders also involves certain significant judgments, assumptions, and estimates of the amounts to be paid. See note 21.

(vii) Management makes significant estimates and assumptions when determining the amounts to record for provision for legal contingencies. See note 22.

The areas requiring a higher degree of judgment in applying accounting principles or complexity are:

(i) Equity arrangements – the Group determined that three of its equity arrangements included embedded derivatives due to the existence of a downside protection clause. The evaluation of the embedded derivatives for separation from the equity instrument required significant judgment and the consideration of whether the embedded derivative was closely related to the host contract. See notes 16 and 23.

4. Correction of errors

The Group has restated its previously issued consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, and consolidated statement of cash flows at December 31, 2015 and December 31, 2014 and for the years then ended. The Group identified various misstatements relating to prior year consolidated financial statements. These errors have been corrected by restating each of the affected financial statement line items for the prior periods. The individual misstatements that underlie the restatement adjustments are described below and are reflected and quantified, as applicable, in the footnotes to the below tables. Certain items in the prior year reported figures have been reclassified for current year presentation purposes. Some restatement adjustments also affect periods prior to 2014.

Impact on consolidated statement of operations

	As previously reported 2015	Restatement adjustments	Ref	Reclassification adjustments	Ref	As restated 2015
			(in € thousands)			
Revenue	1,945,332	(6,945)	(a)	(9,839)	(j)	1,928,548
Cost of revenue	1,623,624	34,257	(b),(c)	6,204	(j)	1,664,085
Gross profit	**321,708**	**(41,202)**		**(16,043)**		**264,463**
Product development	143,307	4,738	(d),(e),(f)	(11,938)	(j)	136,107
Sales and marketing	246,486	(1,540)	(d),(e)	13,777	(j)	258,723
General and administrative	116,405	7,403	(d),(e),(f)	(17,882)	(j)	105,926
	506,198	**10,601**		**(16,043)**		**500,756**
Operating loss	**(184,490)**	**(51,803)**		**—**		**(236,293)**
Finance income	28,172	—		7,584	(j)	35,756
Finance costs	(11,086)	(7,569)	(g)	(7,584)	(j)	(26,239)
Share in earnings of associates and joint ventures	2,640	(2,433)	(h)	—		207
Finance income/(costs) - net	**19,726**	**(10,002)**		**—**		**9,724**
Loss before tax	**(164,764)**	**(61,805)**		**—**		**(226,569)**
Income tax expense	8,333	(3,521)	(i)			4,812
Net loss attributable to owners of the parent	**(173,097)**	**(58,284)**		**—**		**(231,381)**

Notes to the 2016 consolidated financial statements

	As previously reported 2014	Restatement adjustments	Ref	Reclassification adjustments	Ref	As restated 2014
				(in € thousands)		
Revenue	1,081,720	500		2,568	(j)	1,084,788
Cost of revenue	876,089	26,440	(b)	7,971	(j)	910,500
Gross profit	**205,631**	**(25,940)**		**(5,403)**		**174,288**
Product development	121,030	—		(6,782)	(j)	114,248
Sales and marketing	173,013	23		10,973	(j)	184,009
General and administrative	76,678	81		(9,594)	(j)	67,165
	370,721	**104**		**(5,403)**		**365,422**
Operating loss	**(165,090)**	**(26,044)**		**—**		**(191,134)**
Finance income	25,512	—		3,027	(j)	28,539
Finance costs	(18,563)	2,140	(g)	(3,027)	(j)	(19,450)
Share in earnings of associates and joint ventures	(438)	3		—		(435)
Finance income/(costs) - net	**6,511**	**2,143**		**—**		**8,654**
Loss before tax	**(158,579)**	**(23,901)**		**—**		**(182,480)**
Income tax expense	3,678	1,964	(i)	—		5,642
Net loss attributable to owners of the parent	**(162,257)**	**(25,865)**		**—**		**(188,122)**

Impact on comprehensive income increase/(decrease)

	2015	2014
	(in € thousands)	
Exchange differences on translation of foreign operations	71	562
Impact on comprehensive income for the year attributable to owners of the parent	**71**	**562**

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Notes to the 2016 consolidated financial statements

Impact on statement of financial position

	As previously reported December 31, 2015	Restatement adjustments	Ref	Reclassification adjustments	Ref	As restated December 31, 2015
			(in € thousands)			
Assets						
Non-current assets						
Property and equipment	81,094	—		—		81,094
Intangible assets including goodwill	78,267	(5,116)	(f)	—		73,151
Investment in associates and joint ventures	3,863	(2,433)	(h)	—		1,430
Restricted cash	19,956	—		—		19,956
Other non-current assets	458	—		—		458
Deferred tax assets	4,473	(3)		—		4,470
	188,111	**(7,552)**		**—**		**180,559**
Current assets						
Trade and other receivables	265,559	(6,077)	(a)	(15,184)	(k)	244,298
Income tax receivable	—	—		2,780	(i)	2,780
Short term investments	—	—		—		—
Cash and cash equivalents	597,392	—		—		597,392
Other current assets	30,881	—		(5,108)	(k)	25,773
	893,832	**(6,077)**		**(17,512)**		**870,243**
Total assets	**1,081,943**	**(13,629)**		**(17,512)**		**1,050,802**
(Deficit)/Equity and liabilities						
(Deficit)/Equity						
Share capital	91	—		—		91
Other paid in capital	796,853	—		—		796,853
Other reserves	84,778	673	(e)	—		85,451
Accumulated deficit	(562,772)	(91,731)	(a)-(i)	—		(654,503)
(Deficit)/Equity attributable to owners of parent	**318,950**	**(91,058)**		**—**		**227,892**
Non-current liabilities						
Convertible notes	—	—		—		—
Accrued expenses and other liabilities	7,048	9,082	(f)	—		16,130
Provisions	6,820	1,511	(c)	—		8,331
Deferred tax liabilities	—	—		—		—
	13,868	**10,593**		**—**		**24,461**
Current liabilities						
Trade and other payables	128,426	(6,547)	(f)	(2,738)	(k)	119,141
Income tax payable	3,301	(840)	(i)	2,877	(i)	5,338
Deferred revenue	110,496	—		(18,602)	(k)	91,894
Accrued expenses and other liabilities	416,297	67,306	(b),(d),(f)	951	(k)	484,554
Provisions	8,225	6,917	(c)	—		15,142
Derivative liabilities	82,380	—		—		82,380
	749,125	**66,836**		**(17,512)**		**798,449**
Total liabilities	**762,993**	**77,429**		**(17,512)**		**822,910**
Total (deficit)/equity and liabilities	**1,081,943**	**(13,629)**		**(17,512)**		**1,050,802**

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Notes to the 2016 consolidated financial statements

	As previously reported December 31, 2014	Restatement adjustments	Ref	Reclassification adjustments	Ref	As restated December 31, 2014
			(in € thousands)			
Assets						
Non-current assets						
Property and equipment	50,710	—		—		50,710
Intangible assets including goodwill	58,529	—		—		58,529
Investment in associates and joint ventures	—	—		—		—
Restricted cash	9,310	—		—		9,310
Other non-current assets	740	—		—		740
Deferred tax assets	3,906	—		—		3,906
	123,195	—		—		**123,195**
Current assets						
Trade and other receivables	134,108	4,881	(a)	(3,506)	(k)	135,483
Income tax receivable	—	—		1,036	(i)	1,036
Short term investments	—	—		—		—
Cash and cash equivalents	206,492	—		—		206,492
Other current assets	8,720	—		(578)	(k)	8,142
	349,320	**4,881**		**(3,048)**		**351,153**
Total assets	**472,515**	**4,881**		**(3,048)**		**474,348**
(Deficit)/Equity and liabilities						
(Deficit)/Equity						
Share capital	85	—		—		85
Other paid in capital	404,153	—		—		404,153
Other reserves	55,401	(377)	(e)	—		55,024
Accumulated deficit	(389,675)	(33,447)	(b),(d),(f),(g),(i)	—		(423,122)
(Deficit)/Equity attributable to owners of parent	**69,964**	**(33,824)**		—		**36,140**
Non-current liabilities						
Convertible notes	—	—		—		—
Accrued expenses and other liabilities	6,155	5,535	(f)	—		11,690
Provisions	2,090	—		—		2,090
Deferred tax liabilities	160	—		—		160
	8,405	**5,535**		—		**13,940**
Current liabilities						
Trade and other payables	110,055	(3,170)	(f)	(933)		105,952
Income tax payable	8,487	1,986	(i)	1,036	(i)	11,509
Deferred revenue	67,569	(797)		(4,084)	(k)	62,688
Accrued expenses and other liabilities	185,874	34,567	(f)	933		221,374
Provisions	15,555	584		—		16,139
Derivative liability	6,606	—		—		6,606
	394,146	**33,170**		**(3,048)**		**424,268**
Total liabilities	**402,551**	**38,705**		**(3,048)**		**438,208**
Total (deficit)/equity and liabilities	**472,515**	**4,881**		**(3,048)**		**474,348**

Description of Restatement Adjustments

Revenue adjustments

(a) Revenue recognition – This misstatement relates to the recognition of revenue of €6.9 million in 2015 on transactions for which payment should not have been expected due to chargebacks on credit card and other payment processing issues, some of which were identified and inappropriately recognized as bad debts of €3.3 million in 2015.

Cost of revenue adjustments

Notes to the 2016 consolidated financial statements

(b) Royalty accruals – This misstatement relates to an understatement of royalties owing to various rights holders of €27.6 million in 2015 and €26.5 million in 2014.

(c) Onerous contract – This misstatement relates to a multiple year revenue contract with a customer that upon entering into the arrangement was an onerous contract but was not accounted for as such. The costs to provide the services in the contract exceeded the expected revenue. This item increased cost of revenue by €6.6 million in 2015.

Operating expenses

(d) Expense accruals – This misstatement relates to the incorrect accrual for certain expenses, including management bonuses. The increase of €7.5 million in expenses in 2015 was reflected in a product development increase of €151,000, a sales and marketing decrease of €2.5 million and a general and administrative expense increase of €9.8 million. The misstatement related to management bonuses, including social charges, is €9.6 million and is included in general and administrative expenses.

(e) Stock based compensation – This misstatement relates to grants in 2014 that had not been recorded and an understatement of social charges on stock based compensation overall. This increased the expense by €2.1 million in 2015.

(f) Other operating expense adjustments – Certain errors were identified in relation to the goodwill recognized that should have been recognized as post combination employee compensation; incorrect capitalization of software, and adjustments that should have been made to lease costs to straight-line free rent periods. The total resulting adjustments from these items increased operating expenses by €4.2 million in 2015.

Finance income/costs

(g) Finance costs – This misstatement relates to various errors in the determination of foreign currency gains and losses as well as interest expense on certain liabilities. These items increased finance costs by €7.6 million in 2015 and decreased finance costs by €2.1 million in 2014.

(h) Share in earnings of associates and joint ventures – This misstatement relates to losses incurred by an associate that were not recognized. As a result, additional losses of €2.4 million were recognized in 2015..

Income taxes

(i) Income taxes – Errors and adjustments identified resulted in a reduction to income tax expense of €3.5 million for 2015 and an increase in income tax expense of €2.0 million for 2014.

Reclassifications

(j) The Group identified misstatements in the presentation of revenue transactions on a gross versus net basis as well as certain expenses that were inappropriately classified between functions. The impact of these changes is included in the "Reclassification adjustments" column in the tables above. These reclassifications had no impact on the Group's results of operations, financial position, cash flows, or changes in equity.

(k) Deferred revenue – This misstatement relates to an inappropriate gross-up of accounts receivable and deferred revenue for services not yet delivered. This resulted in a reduction in accounts receivable and deferred revenue of €19.0 million for 2015.

The amount of correction included at the beginning of 2014 is €7.6 million, which is included in the accumulated deficit in the consolidated statement of changes in equity. This is principally related to the royalty accruals and other operating expense adjustments.

Impact on consolidated statement of cash flows

The capitalized software misstatement impacted cash flows for investing activities by €5.1 million in the 2015 consolidated statement of cash flows. The offset of this change is included in net income in operating activities for the period.

Notes to the 2016 consolidated financial statements

5. Business Combinations

Acquisitions in 2016

During 2016, the Group acquired the operations of three separate businesses. The acquisitions were accounted for under the acquisition method. The total purchase consideration is €7.2 million, of which €6.6 million was recorded to goodwill and €571,000 to acquired intangibles assets.

Included in the arrangements are payments that are contingent on continued employment. The payments are recognized as remuneration for post-combination services and are automatically forfeited if employment terminates. A total of €2.6 million of post-combination cash pay-outs will be recorded as compensation expense over the service periods of up to three years.

The results of operations for each of the acquisitions have been included in the Group's consolidated statements of operations since the respective dates of acquisitions. Actual and pro forma revenue and results of operations for the acquisitions have not been presented because they do not have a material impact to the consolidated revenue and results of operations, either individually or in aggregate.

Acquisition in 2015

During 2015, the Group acquired the operations of one business. The acquisition is accounted for under the acquisition method. The total purchase consideration is €7.3 million, as restated, all of which was recorded in goodwill. The acquisition did not have a material impact on the Group's total revenue or net loss for the year ended December 31, 2015.

Included in the arrangements are payments that are contingent on continued employment. The payments are remuneration for post-combination services and are automatically forfeited if employment terminates. A total of €1.9 million of post- combination cash pay-outs will be recorded as compensation expense over the service period of three years.

Acquisition in 2014

On March 11, 2014, the Group acquired all of the issued and outstanding shares of The Echo Nest Corporation ("Echo Nest"), a leading music intelligence company. The total consideration was €49.7 million. The purchase consideration consisted of €5.1 million of cash, 57,929 shares of common stock in the Company and estimated pre-combination share based payment awards valued at €4.7 million (see note 16). The valuation of the common stock was consistent with the Group's use of the PWERM to value its own shares further described in note 23. The acquisition allows the Group to leverage Echo Nest's in-depth musical understanding and tools for curation to drive music discovery for users. The addition of Echo Nest also strengthens its ability to help brands and partners build amazing music experiences for their audiences. The acquisition is accounted for under the acquisition method of accounting. Accordingly, the purchase price is allocated to the assets acquired and liabilities assumed based on their fair value on the date of acquisition. The replacement of the Echo Nest's share-based payment awards with share-based payment awards of the Company has been measured in accordance with IFRS 2, *Share-based Payment*, at the acquisition date. The Group incurred €1.4 million in acquisition related costs, which were recognized as General and administration expenses. The acquisition of Echo Nest created goodwill of €40.3 million as the acquisition consideration exceeded the fair value attributable to identifiable assets and liabilities. The factors contributing to the amount of goodwill are Echo Nest's workforce and the expectation that the acquisition will create synergies, which will provide future value. None of the goodwill recognized is expected to be deductible for income tax purposes.

Included in the arrangement are payments that are contingent on continued employment. The payments are remuneration for post-combination services and are automatically forfeited if employment terminates. A total of €1.4 million of post- combination cash pay-outs were recorded as compensation expense over the service period of two years. A total of 3,968 shares issued had vesting restrictions (see note 17).

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

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Notes to the 2016 consolidated financial statements

	(in € thousands)
Cash and cash equivalents	3,087
Trade receivables	747
Other working capital (net)	(1,189)
Property, plant and equipment	220
Developed technology	7,495
Backlog	793
Deferred revenue	(1,730)
Deferred tax liability	(3,737)
Deferred tax asset	3,737
Total identifiable net assets	**9,423**
Goodwill	**40,289**
Total	**49,712**

6. Segment information

The Group has two reportable segments: premium and ad-supported. The premium business is a paid service in which customers can listen on-demand and offline with no advertisements. Revenue is generated through subscription fees. The ad-supported business is the free to the user platform. Revenue is generated through the sale of advertising. No operating segments have been aggregated to form the reportable segments.

Key financial performance measures of the segments including revenue, cost of revenue and gross profit are as follows:

	2016	2015	2014
		(in € thousands)	
Premium			
Revenue	2,638,493	1,732,306	982,741
Cost of revenue	2,154,708	1,434,245	774,213
Gross profit	**483,785**	**298,061**	**208,528**
Ad-supported			
Revenue	295,011	196,242	102,047
Cost of revenue	328,265	229,840	136,287
Gross profit	**(33,254)**	**(33,598)**	**(34,240)**
Consolidated			
Revenue	2,933,504	1,928,548	1,084,788
Cost of revenue	2,482,973	1,664,085	910,500
Gross profit	**450,531**	**264,463**	**174,288**

Reconciliation of gross profit

General expenditures, finance income, finance costs, taxes, and share in earnings of associates and joint ventures are not allocated to individual segments as these are managed on an overall group basis. The reconciliation between reportable segment gross profit and loss to the Group's loss before tax is as follows:

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	2016	2015	2014
		(in € thousands)	
Segment gross profit	**450,531**	**264,463**	**174,288**
Product development	(206,853)	(136,107)	(114,248)
Sales and marketing	(417,911)	(258,723)	(184,009)
General and administrative	(175,179)	(105,926)	(67,165)
Finance income	152,399	35,756	28,539
Finance costs	(336,632)	(26,239)	(19,450)
Share in earnings of associates and joint ventures	(2,054)	207	(435)
Loss before tax	**(535,699)**	**(226,569)**	**(182,480)**

Revenue by geographic area

	2016	2015	2014
		(in € thousands)	
United States	1,166,080	737,059	327,253
United Kingdom	339,897	266,479	153,462
Sweden	201,596	181,577	170,381
Luxembourg	1,186	624	289
Other countries	1,224,745	742,809	433,403
	2,933,504	**1,928,548**	**1,084,788**

Premium revenues are attributed to an individual foreign country based on the individual region from which the membership originates. Advertising revenues are attributed to an individual country based on country of individual viewing the campaign. There are no individual countries that make up greater than 10% of total revenue included in "Other countries".

Non-current assets by geographic area

Non-current assets for this purpose consists of property and equipment.

	2016	2015
	(in € thousands)	
United States	49,394	43,982
United Kingdom	18,787	20,924
Sweden	12,329	14,575
Other countries	4,329	1,613
	84,839	**81,094**

As of December 31, 2016 and 2015, the Group held no property and equipment within Luxembourg.

7. Personnel expenses

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Wages and salaries	230,992	163,321	115,184
Social security expenses	37,585	44,740	27,668
Contributions to retirement plans	12,142	6,672	5,820
Share-based payments	52,880	28,149	16,976
Other employee benefits	38,804	15,641	15,478
	372,403	**258,523**	**181,126**
Average full time employees	**2,162**	**1,581**	**1,364**

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Notes to the 2016 consolidated financial statements

8. Auditor Remuneration

	2016	2015	2014
		(in € thousands)	
Audit and audit related fees	3,565	3,154	2,658
Tax fees	—	—	225
All other fees	127	—	—
	3,692	**3,154**	**2,883**

9. Finance income and costs

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Finance income			
Fair value movements on derivative liabilities (note 23)	22,864	26,671	26,144
Interest income	4,911	1,501	1,357
Foreign exchange gains	124,624	7,584	1,038
Total	**152,399**	**35,756**	**28,539**
Finance costs			
Fair value movements on derivative liabilities (note 23)	(47,649)	(14,287)	(1,989)
Fair value movements on convertible notes (note 23)	(245,053)	—	—
Interest, bank fees and other costs	(5,297)	(1,121)	(2,703)
Foreign exchange losses	(38,633)	(10,831)	(14,758)
Total	**(336,632)**	**(26,239)**	**(19,450)**

10. Income tax

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Current tax expense/(benefit)			
Current year	5,382	5,035	(292)
Changes in estimates in respect to prior year	(1,386)	(1,426)	8,694
	3,996	**3,609**	**8,402**
Deferred tax expense/(benefit)			
Temporary differences	(849)	400	(26)
Change in recognition of deferred tax	56	477	(2,734)
Change in tax rates	308	326	—
	(485)	**1,203**	**(2,760)**
Income tax expense	**3,511**	**4,812**	**5,642**

There is no income tax related to components of other comprehensive income/(loss) for any of the periods presented.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

In 2016, the Group recognized €2.7 million of current income tax expense for provisions and has cumulatively recorded liabilities of €5.8 million for income tax provisions at December 31, 2016, of which €5.5 million is reasonably expected to be resolved within twelve months.

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Notes to the 2016 consolidated financial statements

A reconciliation between the reported tax expense for the year and the theoretical tax expense that would arise when applying statutory tax rate in Luxembourg, 29.22 % (2015: 29.22%, 2014: 29.22%), on the consolidated loss before taxes, is shown in the table below:

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Loss before tax	**(535,699)**	**(226,569)**	**(182,480)**
Tax using the Luxembourg tax rate	(156,531)	(66,203)	(53,321)
Effect of tax rates in foreign jurisdictions	15,210	10,243	507
Change in tax rates	308	326	—
Permanent differences	11,427	8,130	(4,492)
Change in unrecognized deferred taxes	132,313	51,704	53,374
Adjustments in respect to prior years	(1,813)	(950)	8,749
Other	2,597	1,562	825
Income tax expense	**3,511**	**4,812**	**5,642**

The major components of deferred tax assets and liabilities are comprised of the following:

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Intangible assets	—	(1,597)	(2,197)
Share-based compensation	729	3,137	1,845
Tax losses carried forward	224	5,190	2,696
Unrealized losses / (gains)	3	(2,779)	461
Property and equipment	863	(209)	805
Other	1,309	728	136
Net Tax	**3,128**	**4,470**	**3,746**

Reconciliation of deferred tax, net	2016	2015 Restated	2014 Restated
		(in € thousands)	
At January 1	4,470	3,746	366
Movement recognized in consolidated statement of operations	485	(1,203)	2,760
Movement recognized in consolidated statement of changes in equity	(1,702)	1,292	589
Foreign exchange movements	(125)	635	31
At December 31	**3,128**	**4,470**	**3,746**

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Reconciliation to balance sheet	2016	2015 Restated
	(in € thousands)	
Deferred tax assets	3,177	4,470
Deferred tax liabilities	(49)	—
	3,128	**4,470**

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Notes to the 2016 consolidated financial statements

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits.

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Intangible assets	41,236	—	—
Share-based compensation	2,141	19,098	9,118
Tax losses carried forward	196,968	176,013	102,746
Unrealized losses	18,333	—	1,183
Property and equipment	6,021	1,700	2,328
Foreign tax credits	3,818	1,289	—
Other	3,607	6,054	1,780
	272,124	**204,154**	**117,155**

In 2016, €0 (2015: €0, 2014: €2.7 million) of previously unrecognized tax losses and temporary differences were recognized.

At December 31, 2016, no deferred tax liability has been recognized on investments in subsidiaries. The Company has concluded it has the ability and intention to control the timing of any distribution from its subsidiaries and will only do so in a tax advantageous manner. It is not practicable to calculate the unrecognized deferred tax liability on investments in subsidiaries.

Tax loss carryforwards as at December 31, 2016, were expected to expire as follows:

Expected expiry	2017-2025	2026 and onwards	Unlimited	Total
		(in € thousands)		
Tax loss carryforwards	265	409,907	428,702	838,874
Foreign Tax Credits	3,818	—	—	3,818

11. Loss per share

Basic loss per share is computed using the weighted-average number of outstanding ordinary shares during the period. Diluted loss per share is computed using the weighted-average number of outstanding ordinary shares and excludes all potential ordinary shares outstanding during the period, as their inclusion would be anti-dilutive. The Group's potential ordinary shares primarily consist of incremental shares issuable upon the assumed exercise of stock options and warrants, and the incremental shares issuable upon the assumed vesting of unvested restricted stock units and restricted stock awards. The computation of loss per share is as follows:

	2016	2015	2014
		(in thousands, except per share data)	
Basic and diluted			
Net loss attributable to owners of the parent	(539,210)	(231,381)	(188,122)
Shares used in computation:			
Weighted-average ordinary shares outstanding	3,709	3,549	3,360
Basic and diluted loss per share	**(145.38)**	**(65.20)**	**(55.99)**

Potential dilutive securities that are not included in the diluted per share calculations because they would be anti-dilutive are as follows:

	2016	2015	2014
Employee options	274,412	229,803	174,319
Non-employee options	—	—	101,740
Restricted stock units	12,537	15,687	21,238
Restricted stock awards	—	1,984	3,968
Warrants	128,000	—	—

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The potential ordinary shares issuable relating to the contingent options and convertible notes are issuable only upon specified contingent events. As the specified contingent events have not occurred, these contingently dilutive shares are not considered in the calculation of dilutive EPS. For further details, please see note 16 and 18.

12. Property and equipment

	Property and Equipment	Leasehold Improvements	Total
		(in € thousands)	
Cost			
At January 1, 2015	54,845	21,266	76,111
Additions	41,475	11,910	53,385
Transfers	(5,245)	5,245	—
Reclassification	2,606	—	2,606
Exchange differences	2,246	2,382	4,628
At December 31, 2015	**95,927**	**40,803**	**136,730**
Additions	27,890	10,277	38,167
Disposals	(10,111)	(813)	(10,924)
Exchange differences	(2,704)	1,060	(1,644)
At December 31, 2016	**111,002**	**51,327**	**162,329**
Accumulated depreciation			
At January 1, 2015	(21,014)	(4,387)	(25,401)
Depreciation charge	(21,477)	(4,496)	(25,973)
Reclassification	(2,606)	—	(2,606)
Exchange differences	(1,419)	(237)	(1,656)
At December 31, 2015	**(46,516)**	**(9,120)**	**(55,636)**
Depreciation charge	(25,836)	(6,408)	(32,244)
Disposals	10,111	813	10,924
Exchange differences	457	(991)	(534)
At December 31, 2016	**(61,784)**	**(15,706)**	**(77,490)**
At December 31, 2015	**49,411**	**31,683**	**81,094**
At December 31, 2016	**49,218**	**35,621**	**84,839**

The Group leases various equipment under non-cancellable finance lease agreements over a lease term of 3 years. Property and equipment includes the following amounts where the Group is a lessee under a finance lease:

	2016	2015
	(in € thousands)	
Finance leases	15,487	15,891
Accumulated depreciation	(10,312)	(5,569)
	5,175	**10,322**

Notes to the 2016 consolidated financial statements

13. Intangible assets including goodwill

	Internal development costs and patents	Acquired intangible assets	Other	Total	Goodwill	Total
			(in € thousands)			
Cost						
At January 1, 2015	—	**10,912**	—	**10,912**	**51,614**	**62,526**
Additions	4,584	—	537	5,121	—	5,121
Acquisition, business combination (note 5)	—	—	—	—	7,259	7,259
Exchange differences	—	1,129	—	1,129	5,687	6,816
At December 31, 2015, as restated	**4,584**	**12,041**	**537**	**17,162**	**64,560**	**81,722**
Additions	3,445	—	—	3,445	—	3,445
Acquisitions, business combination (note 5)	—	571	—	571	6,633	7,204
Write off of fully amortized intangibles	—	(1,380)	—	(1,380)	—	(1,380)
Exchange differences	—	278	—	278	1,737	2,015
At December 31, 2016	**8,029**	**11,510**	**537**	**20,076**	**72,930**	**93,006**
Accumulated amortization						
At January 1, 2015	—	**(3,997)**	—	**(3,997)**	—	**(3,997)**
Amortization charge	(424)	(3,567)	(166)	(4,157)	—	(4,157)
Exchange differences	—	(381)	(36)	(417)	—	(417)
At December 31, 2015, as restated	**(424)**	**(7,945)**	**(202)**	**(8,571)**	—	**(8,571)**
Amortization charge	(1,962)	(3,502)	(201)	(5,665)	—	(5,665)
Write off of fully amortized intangibles	—	1,380	—	1,380	—	1,380
Exchange differences	(64)	(334)	—	(398)	—	(398)
At December 31, 2016	**(2,450)**	**(10,401)**	**(403)**	**(13,254)**	—	**(13,254)**
Net book value						
At December 31, 2015, as restated	**4,160**	**4,096**	**335**	**8,591**	**64,560**	**73,151**
At December 31, 2016	**5,579**	**1,109**	**134**	**6,822**	**72,930**	**79,752**

Amortization of €4.6 million in 2016 (2015: €3.8 million, as restated, 2014: €3.4 million) is included in product development in the consolidated statement of operations. Product development costs that are not eligible for capitalization have been expensed in the period incurred.

Goodwill is tested for impairment on an annual basis or when there are indications the carrying amount may be impaired. In 2015 and 2014, the Group had only CGU. In 2016, given the Group's focus on the differentiation between Premium and Ad-supported as distinct business, as well as the evolution of these services as distinct products and experiences that appeal to different customers, the combined revenue organization was separated into two businesses. Thus, for the purpose of 2016 impairment testing, goodwill is allocated to the Group's two CGUs, the Premium business and Ad-supported business, based on the units that are expected to benefit from the business combination.. The Group monitors goodwill at the CGU level for internal purposes, consistent with the way it assesses performance and allocates resources. The carrying amount of goodwill allocated to each of the CGUs is as follows:

	Premium business	Ad-supported business
	2016	2016
	(in € thousands)	
Goodwill	64,040	8,890

Valuation methodology

The recoverable amount of the Premium and Ad-supported CGUs is determined by the Probability Weighted Expected Return Method ("PWERM"). The PWERM represents fair value less costs of disposal ("FVLCD"), which is classified as Level 3 under the fair value

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hierarchy. FVLCD is calculated using the projected revenue of the Group and applying a multiple based on historical revenue multiples of comparable publicly traded companies. The PWERM method quantifies the underlying enterprise value by probability weighting the indicated equity values of potential discrete future outcomes (or "scenarios"). The weighting and key assumptions used to estimate the fair value using the PWERM were the same for both CGUs. As a result of the analysis, the FVLCD for the Premium and Ad-supported CGUs was determined to be in excess of their carrying amounts. No impairment was recorded in 2016, 2015, or 2014.

Key assumptions used in the FVLCD calculations at the impairment testing date

The valuation models weighted the different scenarios as follows:

	2016	2015
Market Approach – High Case initial public offering ("IPO")	20%	20%
Market Approach – Low Case IPO	40%	40%
Market Approach – High Case Transaction	4%	4%
Market Approach – Low Case Transaction	6%	6%
Private Case – Income and Market Approaches	30%	30%

The key assumptions used to estimate the fair value of the CGUs using the PWERM are as follows:

	2016	2015
Revenue multiple used to estimate enterprise value	2.0 – 3.5	3.1 – 5.9
Discount rate (%)	19.0	14.0

The calculation of the FVLCD is most sensitive to the revenue multiple and discount rate assumptions. Revenue multiples were selected based on the relative growth prospects, margin, and risks of comparable companies, versus the Group as well as an assumption of market conditions at exit. The indicated value in the IPO and transaction cases were discounted back to the valuation date using a rate consistent with the Group's weighted average cost of capital ("WACC"). There are no reasonably possible changes in the key assumptions that would result in the CGU carrying amounts exceeding their recoverable amounts.

14. Restricted cash

	2016	2015
	(in € thousands)	
Lease deposits	19,684	19,219
Other	1,486	737
	21,170	**19,956**

15. Trade and other receivables

	2016	2015 Restated
	(in € thousands)	
Trade receivables	248,553	176,629
Less: provision for impairment of trade receivables	(25,746)	(12,743)
Trade receivables – net	222,807	163,886
Advances to rights holders	8,443	2,034
Accrued revenue	60,692	70,241
Other receivables	7,712	8,137
	299,654	**244,298**

Trade receivables are non-interest bearing and generally have 30-day payment terms. Due to their comparatively short maturities, the carrying value of trade and other receivables approximate their fair value. The Group establishes an accrual against advances made to rights holders not expected to be recovered.

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The aging of the Group's trade receivables that are not impaired are as follows:

	2016	2015 Restated
	(in € thousands)	
Not yet due	127,338	85,402
Overdue 0 - 30 days	44,642	52,874
Overdue 31 - 60 days	21,204	8,555
Overdue 60 - 90 days	12,896	9,886
Overdue more than 90 days	16,727	7,169
	222,807	**163,886**

With respect to trade receivables that are neither impaired nor past due, there are no indications at the reporting date that the debtors will not meet their payment obligations. The trade receivables past due relate to a number of customers for whom there is no recent history of default or other indicators of impairment.

The movements in the Group provision for impairment of trade receivables are as follows:

	2016	2015 Restated
	(in € thousands)	
At January 1	**12,743**	**6,114**
Provision for receivables impairment	29,532	9,392
Receivables written off	(5,366)	(64)
Reversal of unutilized provisions	(11,163)	(2,699)
At December 31	**25,746**	**12,743**

The Group maintains a provision for impairment of a portion of trade receivables when collection becomes doubtful. The Group estimates anticipated losses from doubtful accounts based upon the expected collectability of all accounts receivables, which takes into account the number of days past due, collection history, identification of specific customer exposure, and current economic trends. An impairment loss on trade receivables is calculated as the difference between the carrying amount and the present value of the estimated future cash flow. Impairment losses are charged to General and administrative expense in the consolidated statement of operations. Receivables for which an impairment provision was recognized are written off against the provision when it is deemed uncollectible.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

16. Issued share capital and other reserves

The Group has incentive stock option plans under which options to subscribe to the Company's share capital have been granted to executives and certain employees. Options exercised under these plans have been settled via the issuance of new shares. As at December 31, 2016, the authorized and subscribed share capital was comprised of 10,075,044 (2015: 10,075,044) shares at a par value €0.025 each.

On November 13, 2012, the Group entered into an equity financing agreement with new and existing shareholders for the issuance of 105,103 shares for total gross proceeds of €78.7 million and incurred transaction costs of €2.7 million in addition to the shares received, the new investors also received contingent options that provided downside protection (meaning that the new investors are eligible to receive additional shares at certain valuations in the event of certain triggering events such as a trade sale, IPO, or liquidation of the Group). The contingent options were determined to be embedded derivatives which required separation from the equity issuance. The contingent options recognized as a derivative liability upon issuance were valued at €38.9 million at December 31, 2012. Refer to note 23.

On November 20, 2013, the Group entered into an equity financing agreement with new investors for the issuance of 205,829 shares. On December 19, 2013, the first closing occurred and the Group issued 139,604 shares for total gross proceeds of €123.2 million and incurred transaction costs of €2.1 million. The second closing occurred on January 17, 2014, whereby 66,225 shares were issued for

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total gross proceeds of €58.4 million. In addition to the shares received in December 2013, the new investors also received contingent options that provided downside protection (meaning that the new investors are eligible to receive additional shares at certain valuations in the event of certain triggering events such as a trade sale, IPO, or liquidation of the Group). The contingent options were determined to be embedded derivatives, which required separation from the equity issuance. The contingent options recognized as a derivative liability upon issuance were valued at €30.5 million at December 31, 2013. Refer to note 23.

On March 11, 2014, the Group acquired all of the issued and outstanding shares of The Echo Nest Corporation ("Echo Nest"). Pursuant to IFRS 3, *Business Combinations*, the total consideration was €49.7 million. The purchase consideration consisted of €5.1 million of cash, 57,928 shares of common stock in the Company, and estimated pre-combination share based payment awards valued at €4.7 million. A total of 3,968 shares issued had vesting restrictions. For further details, please see note 5 and 17.

On April 17, June 9, and July 15, 2015, the Group entered into an equity financing agreement with new and existing shareholders for the issuance of 237,122 shares for total gross proceeds of €478.9 million and incurred transaction costs of €4.4 million. In addition to the shares received, the new investors also received contingent options that provided downside protection (meaning that the new investors are eligible to receive additional shares at certain valuations in the event of certain triggering events such as a trade sale, IPO, or liquidation of the Group.). The contingent options were determined to be embedded derivatives, which required separation from the equity issuance. The contingent options are recognized as a derivative liability and were valued at €87.8 million upon issuance. For further details, please see note 23.

On October 17, 2016, the Company issued, for €26.9 million in cash, warrants to acquire 128,000 shares of its common stock to certain members of key management of the Group. The exercise price of each warrant is US$2,024.40, which was equal to 1.2 times the fair market value of common stock on the date of issuance. The warrants are exercisable at any time through October 17, 2019. For further details, please see note 23.

No dividends were paid during the year or are proposed for the present year. All shares have equal rights to vote at general meetings.

Other reserves

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Currency translation			
At January 1	**8,358**	**7,856**	**5,900**
Currency translation	(13,295)	502	1,956
At December 31	**(4,937)**	**8,358**	**7,856**
Available for sale financial assets			
At January 1	—	—	—
Unrealized losses	(4,175)	—	—
At December 31	**(4,175)**	—	—
Share-based payments			
At January 1	**77,093**	**47,168**	**29,454**
Share-base payments (note 17)	53,360	28,633	17,125
Income tax impact associated with share-based payments (note 10)	288	1,292	589
At December 31	**130,741**	**77,093**	**47,168**
At December 31	**121,629**	**85,451**	**55,024**

Currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into the reporting currency.

Available for sale financial assets reserve recognizes the unrealized fair value gains and losses on current asset investments held as available for sale.

Share-based payments reserve recognizes the grant date fair value of equity-settled awards provided to employees as part of their remuneration. For further details, please see note 17.

17. Share-based payments

Employee Share Option Plans

Under the Employee Share Option Plans ("ESOP"), share options of the Company are granted to executives and certain employees of the Group. For options granted prior to January 1, 2016, the exercise price is equal to the fair value of the shares on grant date for employees in the United States and for US citizens and fair value less 30% for the rest of the world. The value of the discount is included in the grant date fair value of the award. For options granted thereafter, the exercise price of the options is equal to the fair value of the shares on grant date for all employees. Generally, the first vesting period (13.5% - 25% of the initial grant) is up to one year from the grant date and subsequently vests at a rate of 6.25% each quarter until fully vested. The exercise price for options is payable in the EUR value of a fixed USD amount; therefore, the Group considers these awards to be USD-denominated. The options are generally granted with a term of 5 years.

In connection with the Group's acquisition of Echo Nest in March of 2014, the Group assumed Echo Nest's equity incentive plan and issued replacement awards, The Group issued 11,454 stock options at a weighted-average exercise price of US$282 to replace previously held Echo Nest equity awards.

Restricted Stock Awards

In connection with the Group's acquisition of Echo Nest in March of 2014, the Group issued restricted stock awards (RSAs) to certain Echo Nest employees. Vesting of the RSAs is contingent on continued employment of these employees. The awards are accounted for as equity-settled share-based payment transactions. The Group issued 3,968 RSAs. The RSAs vested annually over a two-year period from the acquisition date. During 2016, the Group recorded share-based compensation expense related to RSAs of €161,000 (2015: €1.2 million). The valuation of the RSAs was consistent with the fair value of the common stock further described in note 23.

Restricted Stock Unit Program

During 2014, the Company implemented Restricted Stock Unit (RSUs) program accounted for as equity-settled share-based payment transaction. RSUs are measured based on the fair market value of the underlying stock on the date of grant. The RSUs granted to participants under the Program generally vest over three to five years. The vesting of certain RSUs could accelerate in the event of an IPO or other change in control event. During 2016, the Group recorded share-based compensation expense related to restricted stock units of €5.2 million (2015: €7.8 million). The valuation of the RSUs was consistent with the fair value of the common stock further described in note 23.

Activity in the RSUs and RSAs outstanding and related information is as follows:

	RSU		RSA	
	Number of RSUs	Weighted Average Grant Date Fair Value	Number of RSAs	Weighted Average Grant Date Fair Value
		US$		US$
Outstanding at January 1, 2015	**21,238**	**1,215**	**3,968**	**956**
Granted	2,961	1,726	—	—
Forfeited	(5,723)	1,215	—	—
Vested	(2,789)	1,215	(1,984)	956
Outstanding at December 31, 2015	**15,687**	**1,311**	**1,984**	**956**
Granted	4,402	1,674	—	—
Forfeited	(3,500)	1,215	—	—
Vested	(4,052)	1,301	(1,984)	956
Outstanding at December 31, 2016	**12,537**	**1,469**	—	—

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Activity in the share options outstanding and related information is as follows:

	ESOP		Non-employee options	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		US$		€
Outstanding at January 1, 2015	**174,319**	**510**	**101,740**	**97**
Granted	83,691	1,615	—	—
Forfeited	(7,922)	801	(101,740) [1]	(97)
Exercised	(17,785)	377	—	—
Expired	(2,500)	609	—	—
Outstanding at December 31, 2015	**229,803**	**912**	—	—
Granted	150,509	1,676	—	—
Forfeited	(12,814)	1,441	—	—
Exercised	(91,537)	406	—	—
Expired	(1,549)	837	—	—
Outstanding at December 31, 2016	**274,412**	**1,475**	—	—
Exercisable at December 31, 2015	**123,180**	**527**	—	—
Exercisable at December 31, 2016	**94,125**	**1,199**	—	—

1) Settled by certain of the Company's Shareholders

The weighted average contractual life for the share options outstanding at December 31, 2016 is 3.4 years (2015: 2.5 years). The weighted average share price at exercise for options exercised during 2016 was US$1,682 (2015: US$1,744). The weighted average fair value of options granted during the year ended December 31, 2016 was US$524 per option (2015: US$623).

The share options outstanding are comprised of the following:

	2016		2015	
	Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
Range of exercise prices (US$)				
Below 1,600	68,277	2.0	165,260	1.9
1,600 – 1,700	158,003	4.0	31,704	4.3
Above 1,700	48,132	3.6	32,839	4.3
	274,412	**3.4**	**229,803**	**2.5**

In determining the fair value of the employee share-based awards, the Group uses the Black-Scholes option-pricing model. The Company does not anticipate paying any cash dividends in the near future and therefore uses an expected dividend yield of zero in the option valuation model. The expected volatility is based on the historical volatility of public companies that are comparable to the Group over the expected term of the award. The risk-free rate is based on US Treasury zero-coupon rates as the exercise price is based on a fixed USD amount. The expected life of the share options is based on historical data and current expectations.

The following table lists the inputs to the Black-Scholes option-pricing models used for employee share-based payments for the years ended December 31, 2016 and 2015:

	2016	2015
Expected volatility (%)	37.9 – 45.8	39.4 – 55.9
Risk-free interest rate (%)	0.8 – 1.8	0.9 – 1.6
Expected life of share options (years)	2.5 – 5.0	2.8 – 5.2
Weighted average share price (US$)	1,648 – 1,776	1,448 – 1,860

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Valuation assumptions are determined at each grant date and, as a result, are likely to change for share-based awards granted in future periods. Changes to the input assumptions could materially affect the estimated fair value of share-based payment awards.

The sensitivity analysis below shows the impact of increasing and decreasing expected volatility by 10% as well as the impact of increasing and decreasing the expected life by one year. This analysis was performed on stock options granted in 2016. The following table shows the impact of these changes on stock option expense for the options granted in 2016:

	2016
	(in € thousands)
Actual stock option expense	26,187
Stock option expense increase (decrease) under the following assumption changes	
Volatility decreased by 10%	(6,887)
Volatility increase by 10%	4,465
Expected life decrease by 1 year	(5,437)
Expected life increase by 1 year	2,447

The expense recognized in the consolidated statement of operations for employee share-based payments is as follows:

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Cost of revenue	788	738	774
Product development	15,516	11,108	8,825
Sales and marketing	10,459	5,732	3,868
General and administrative	26,117	10,571	3,509
	52,880	**28,149**	**16,976**

18. Convertible notes and borrowings

Convertible notes

On April 1, 2016, the Group issued US$1,000 million principal amount of convertible notes due in 2021. The notes were issued at par and bear interest of 5.0% Payment-in-kind (PIK) interest increasing by 100 basis points every six months after two years. The notes upon a specified conversion event occurring within twelve months, will convert into common stock at a conversion rate reflecting a conversion price equal to the lesser of a price cap per share or a discount of 20.0% to the per share price of Issuer's common stock. If a specified conversion event has not occurred within twelve months, the discount will increase by 250 basis points and then again, every six months thereafter until a specified conversion event has occurred. The terms also include change of control clauses where the notes holders have the option to convert into common stock. At maturity, if the notes have not yet been converted or repaid, note holders will receive cash in an amount equal to the original principal amount plus 10% annualized return.

The Group accounts for the convertible notes in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, 'fair value option'. Under this approach, the convertible notes are accounted for in its entirety at fair value through profit or loss (initial recognition). The transaction costs of approximately US$20 million were effectively immediately expensed in finance costs.

The convertible note agreements include certain affirmative covenants, among others, including the delivery of audited consolidated financial statements to the holders.

Finance lease liabilities

Total borrowings include finance lease liabilities. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	2016	2015
	(in € thousands)	
Gross finance lease liabilities – minimum lease payments:		
Not later than one year	4,748	5,715
Later than one year but not more than 5 years	953	5,490
	5,701	**11,205**
Future finance charges on finance lease liabilities	(47)	(499)
Present value of finance lease liabilities	**5,654**	**10,706**

The present value of finance lease liabilities is as follows:

	2016	2015
	(in € thousands)	
No later than 1 year	4,703	5,650
Later than 1 year and no later than 5 years	951	5,056
	5,654	**10,706**

Undrawn borrowing facilities

On December 23, 2013, the Group signed a Revolving Credit Facility with a group of lenders. The facility provided for maximum borrowings, of US$200.0 million. The total facility was available for issuance under a revolving loan and US$20.0 million was available for a swingline loan. The interest rates per annum under the facility were based on floating rates of interest measured by reference to an adjusted Prime rate, Federal Funds rate, London inter-bank offered rate (LIBOR) or Euro inter-bank offered rate (EURIBOR). The Group incurred loan origination fees of approximately US$2 million, which were deferred and amortized to finance costs over the term of the facility.

The Revolving Credit Facility was terminated on April 7, 2016. The Group had no borrowings under the senior revolving credit facility at the time of its termination. No early termination penalties were incurred by the Group as a result of the termination.

The Group incurred financing costs and commitment fees, of €966,000 in 2016 (2015: €999,000, as restated, 2014: €1.4 million, as restated), inclusive of loan origination amortization and unused commitment fees. Upon termination of the facility, the Group wrote off the remaining unamortized loan origination costs.

19. Trade and other payables

	2016	2015 Restated
	(in € thousands)	
Trade payables	139,298	76,564
Value added tax and sales taxes payable	49,585	29,759
Employee related liabilities	5,246	3,728
Other current liabilities	7,335	9,090
	201,464	**119,141**

Trade payables generally have a 30-day term and are recognized and carried at their invoiced value, inclusive of any value added tax that may be applicable.

Notes to the 2016 consolidated financial statements

20. Deferred revenue

	2016	2015 Restated
	(in € thousands)	
Deferred advertising revenue	1,326	1,651
Deferred subscription revenue	149,320	90,243
	150,646	**91,894**

21. Accrued expenses and other liabilities

	2016	2015 Restated
	(in € thousands)	
Non-current		
Deferred rent	8,915	9,082
Borrowings (note 18)	951	5,056
Other accrued liabilities	134	1,992
	10,000	**16,130**
Current		
Accrued fees to rights holders	562,271	377,465
Accrued salaries, vacation and related taxes	19,581	22,741
Accrued social charge for options and RSUs	11,011	32,771
Borrowings (note 18)	4,703	5,650
Other accrued expenses	75,200	45,927
	672,766	**484,554**
	682,766	**500,684**

Notes to the 2016 consolidated financial statements

22. Provisions

The changes in the Group's provisions were as follows:

	Legal contingencies	Onerous contracts	Other	Total
		(in € thousands)		
Carrying amount at January 1, 2015	**584**	**10,705**	**6,940**	**18,229**
Charged/(credited) to the consolidated statement of operations:				
Additional provisions	8,321	10,319	4,798	23,438
Reversal of unutilized amounts	5	(10,705)	(3,354)	(14,054)
Utilized	(490)	(3,650)	—	(4,140)
Carrying amount at December 31, 2015, as restated	**8,420**	**6,669**	**8,384**	**23,473**
Charged/(credited) to the consolidated statement of operations:				
Additional provisions	45,600	4,544	2,750	52,894
Reversal of unutilized amounts	—	—	—	—
Utilized	(4,564)	(6,403)	(4,390)	(15,357)
Carrying amount at December 31, 2016	**49,456**	**4,810**	**6,744**	**61,010**
As at December 31, 2015:				
Current portion, as restated	**4,638**	**5,160**	**5,344**	**15,142**
Non-current portion, as restated	**3,782**	**1,509**	**3,040**	**8,331**
As at December 31, 2016:				
Current portion	**49,456**	**3,782**	**4,112**	**57,350**
Non-current portion	**—**	**1,028**	**2,632**	**3,660**

Provision for legal contingencies

Various legal actions, proceedings, and claims are pending or may be instituted or asserted against the Group. These may include but are not limited to matters arising out of alleged infringement of intellectual property; alleged violations of consumer regulations; employment-related matters; and disputes arising out of supplier and other contractual relationships. The results of such legal proceedings are difficult to predict and the extent of the Group's financial exposure is difficult to estimate. The Group records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

On December 28, 2015 and on January 8, 2016, two putative copyright class actions were filed against Spotify USA Inc. in the United States District Court for the Central District of California. Those lawsuits were consolidated and transferred to the Southern District of New York as Ferrick et al. v. Spotify USA Inc., Case No. 1:16-cv-08412 (AJN) (S.D.N.Y.).

Provision for onerous contracts

Onerous contracts represent promotion campaigns for premium subscriptions and a specific partner contract where the unavoidable cost of meeting the obligations exceeds the revenue generated. The costs associated with the provisions are recognized as either sales and marketing or cost of revenue. During 2015, the Group established a track record demonstrating that promotion campaigns did not result in onerous contracts and released the premium subscription provision. The Group expects the majority of this provision to be consumed within two years.

Other

The Group has obligations under lease agreements to return the leased assets to their original condition. An obligation to remove the improvement upon expiration of the lease is accounted for as asset retirement obligations. The obligations are expected to be settled at the end of the lease terms.

Indirect tax provisions relate primarily to potential non-income tax obligations in various jurisdictions. The Group recognizes provisions for claims or indirect taxes when it determines that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. These provisions are recognized as General and administrative expenses.

Notes to the 2016 consolidated financial statements

23. Financial risk management and financial instruments

Financial Risk Management

The Group's operations are exposed to financing and financial risks, which are managed under the control and supervision of the Board of Directors of the Company. To manage these risks efficiently, the Group has established guidelines in the form of a treasury policy that serves as a framework for the daily financial operations of the Group. The treasury policy stipulates the rules and limitations for the management of financial risks throughout the Group.

Financial risk management is centralized within Group Treasury who are responsible for the management of financing and financial risks. Group Treasury manages and executes the financial management activities, including monitoring the exposure of financial risks, cash management, and maintaining a liquidity reserve, and it provides certain financial services to the entities of the Group. Group Treasury operates within the limits and policies authorized by the Board of Directors.

Capital management

The Group's objectives when managing capital (Cash and cash equivalents, short term investments, equity, and convertible notes) is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's capital structure and dividend policy is decided by the Board of Directors. Group Treasury continuously reviews the Group's capital structure considering, amongst other things, market conditions, financial flexibility, business risk, and growth rate.

The Group is not subject to any externally imposed capital requirements.

Credit risk management

Financial assets carry an element of risk that counterparties may be unable to fulfill their obligations. This exposure arises from the investments in liquid funds of banks and other counterparties. The Group mitigates this risk by adopting a risk adverse approach in relation to the investment of surplus cash. The main objectives for investments are first, to preserve principal and secondarily, to maximize return given the rules and limitations of the treasury policy. Surplus cash is invested in counterparties and instruments considered to carry low credit risk. Investments are subject to credit rating thresholds and at the time of investment, no more than 10% of surplus cash can be invested in any one issuer (excluding certain government bonds and investments in cash management banks). The weighted average maturity of the portfolio shall not be greater than 2 years, and the final maturity of any investment is not to exceed 5 years. The Group shall maintain the ability to liquidate the majority of all investments within 90 days. At December 31, 2016, the financial credit risk was equal to the consolidated statement of financial position value of cash and cash equivalents and short term investments of €1,585 million. No credit losses were incurred during 2016 on investments.

The credit risk with respect to the Group's trade receivables is diversified geographically and among a large number of customers, private individuals as well as companies in various industries, both public and private. The majority of the Group's revenue is paid in advance significantly lowering the credit risk incurred for these specific counterparties. Solvency information is required for credit sales within the Ad sales and Partner subscription business to minimize the risk of bad debt losses and is based on information provided by credit and business information from external sources.

Liquidity risk management

Liquidity risk is the risk of the Group not being able to meet the short term payment obligations due to insufficient funds. The Group has internal control processes and contingency plans for managing liquidity risk. A centralized cash pooling process enables the Group to manage liquidity surpluses and deficits according to the actual needs at the group and subsidiary level. The liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from operations. The Group strives to maintain more than €100 million equivalent available cash-in-hand and to keep an Available Cash / Revenue ratio above 20% in the longer term. Available Cash is defined as cash and cash equivalents including immediately available cash under credit facilities.

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Notes to the 2016 consolidated financial statements

The Group's policy is to have a strong liquidity position in terms of available cash, short term investments, and/or unutilized committed credit facilities.

	2016	2015
	(in € thousands)	
Liquidity		
Short term investments	830,285	—
Short term deposits	372,670	232,349
Cash at bank and on hand	382,234	365,043
Total surplus liquidity	**1,585,189**	**597,392**
Committed credit facilities		
Revolving credit facilities (limit amount)	—	184,162
Total unutilized committed credit facilities	—	**184,162**
Liquidity position	**1,585,189**	**781,554**

Currency risk management

Transaction exposure relates to business transactions denominated in foreign currency required by operations (purchasing and selling) and/or financing (interest and amortization). The Group's general policy is to hedge transaction exposure on a case by case basis. During 2016, the Group has not entered into any hedging transactions. The Group is evaluating this policy on a continuous basis. The Group strives, as far as possible, to mitigate its currency exposure in the USD denominated convertible notes by matching the balance with USD denominated cash equivalents and short term investments creating a natural hedge. Translation exposure relates to net investments in foreign operations. The Group does not conduct translation risk hedging.

(i) Transaction exposure sensitivity

In most cases, the Group's customers are billed in their respective local currency. Major payments, such as salaries, consultancy fees, and rental fees are settled in local currencies. Royalty payments are primarily in EUR and USD. Hence, the operational need to net purchase foreign currency is primarily due to a deficit from such settlements.

The table below shows the immediate impact on net income before tax of a 10% strengthening in the closing exchange rate of significant currencies to which the Group has exposure, at December 31, 2016 and 2015. The sensitivity associated with a 10% weakening of a particular currency would be equal and opposite. This assumes that each currency moves in isolation.

2016	SEK	AUD	EUR	GBP	USD
			(in € thousands)		
Increase/(decrease) in income before tax	(19,785)	6,301	(36,226)	(21,939)	(31,050)

2015	SEK	AUD	EUR	GBP	USD
			(in € thousands)		
Increase/(decrease) in income before tax	(18,491)	5,347	(24,278)	(23,092)	16,782

(ii) Translation exposure sensitivity

The positive impact on Group's equity would be approximately €40 million (2015: €28 million) if the EUR weakened by 10 percentage points against all translation exposure currencies, based on the exposure at December 31, 2016.

Interest rate risk management

Interest rate risk is the risk that changes in interest rates will have a negative impact on Group earnings and cash flow. The fair value of the Group's convertible notes is dependent on market interest rates, which may negatively impact earnings. The convertible notes are remeasured at each reporting date using valuation models using input data which includes market interest rates. Changes in the fair value of the convertible notes are recognized in finance income or cost in the consolidated statement of operations. An increase in market interest rates will decrease the value of the convertible notes. The Group has not entered into any hedging arrangement to mitigate these fluctuations.

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Notes to the 2016 consolidated financial statements

The Group's exposure to interest rate risk is also related to its interest-bearing assets, primarily its available for sale debt securities. Fluctuations in interest rates impact the yield of the investment. The sensitivity analysis considered the historical volatility of short term interest rates and determined that it was reasonably possible that a change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis points) increase in interest rates would have impacted interest income by €6.2 million for the year ended December 31, 2016.

Financing risk management

The Group finances its operations through external borrowings, equity, and cash flow from operations. The funding strategy has been to diversify funding sources. Currently the external debt consists of the convertible notes and finance leases.

Share Price Risk Management

Share price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the fair value of the Company's common share price. The Group's exposure to this risk relates primarily to the derivative liabilities arising from financing activities. These derivative liabilities are remeasured at each reporting date using valuation models using input data based on the Company's share price. Changes in the fair value of these instruments are recognized in finance income. An increase of share price will decrease the value of the financing arrangements. The Group has not entered into any hedging arrangement to mitigate these fluctuations.

Management of insurable risks

Insurance coverage is governed by corporate guidelines and includes a common package of different property and liability insurance programs. The business is responsible for assessing the risks to decide the extent of actual coverage. Group Treasury manages the common Group insurance programs.

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Notes to the 2016 consolidated financial statements

Financial Instruments

Fair values

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities. The carrying amounts of certain financial instruments, including cash and cash equivalents, trade and other receivables, restricted cash, trade and other accounts payable, and accrued expenses approximate fair value due to their relatively short maturities.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	(in € thousands)			
Financial assets				
Cash and cash equivalents	754,904	754,904	597,392	597,392
Trade and other receivables (note 15)	299,654	299,654	244,298	244,298
Short term investments:				
Government securities	262,193	262,193	—	—
Agency securities	55,083	55,083	—	—
Corporate notes	322,651	322,651	—	—
Collateralized reverse purchase agreements	190,358	190,358	—	—
Restricted cash (note 14)	21,170	21,170	19,956	19,956
Total	**1,906,013**	**1,906,013**	**861,646**	**861,646**
Financial liabilities				
Fair value through profit or loss:				
Convertible notes (note 18)	1,106,354	1,106,354	—	—
Derivatives (not designated for hedging):				
Contingent options (note 16)	99,646	99,646	82,008	82,008
Warrants (note 16)	34,019	34,019	—	—
Other	—	—	372	372
Trade and other payables (note 19)	201,464	201,464	119,141	119,141
Accrued expenses and other liabilities (note 21)	673,717	673,717	489,610	489,610
Total	**2,115,200**	**2,115,200**	**691,131**	**691,131**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined in note 2.

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Notes to the 2016 consolidated financial statements

As at December 31, 2016, the Group held the following classes of financial instruments measured at fair value:

Financial assets and liabilities by fair value hierarchy level	2016	Level 1	Level 2	Level 3
		(in € thousands)		
Financial assets at fair value				
Available for sale financial assets				
Short term investments:				
Government securities	262,193	247,597	14,596	—
Agency securities	55,083	—	55,083	—
Corporate notes	322,651	—	322,651	—
Collateralized reverse purchase agreements	190,358	—	190,358	—
Total financial assets at fair value by level	**830,285**	**247,597**	**582,688**	**—**
Financial liabilities at fair value				
Fair value through profit or loss:				
Convertible notes	1,106,354	—	—	1,106,354
Derivatives (not designated for hedging):				
Contingent options	99,646	—	—	99,646
Warrants	34,019	—	—	34,019
Total financial liabilities at fair value by level	**1,240,019**	**—**	**—**	**1,240,019**

As at December 31, 2015, the Group held the following classes of financial instruments measured at fair value:

Financial assets and liabilities by fair value hierarchy level	2015	Level 1	Level 2	Level 3
		(in € thousands)		
Financial liabilities at fair value				
Derivatives (not designated for hedging):				
Contingent options	82,008	—	—	82,008
Other	372			372
Total financial liabilities at fair value by level	**82,380**	**—**	**—**	**82,380**

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

During the years ended December 31, 2016 and 2015 there were no transfers between levels in the fair value hierarchy.

Recurring Fair Value Measurements

The following sections describe the valuation methodologies the Group uses to measure the level 3 financial instruments at fair value on a recurring basis.

Fair value of common stock

The valuation of certain items in the consolidated financial statements is consistent with the Group's use of the Probability Weighted Expected Return Method (PWERM) to value its own shares.

The fair value of the common stock is determined using the PWERM, which is one of the recommended valuation methods to measure fair value in privately held companies with complex equity structures in the American Institute of Certified Public Accountants Practice Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. Under this method, discrete future outcomes, including IPO, non-IPO scenarios and a merger or sale are weighted based on estimates of the probability of each scenario. In the Group's application of this method, five different future scenarios are identified (high and low case IPO, high and low case transaction, and private company). For each scenario, an equity value is calculated based on revenue multiples, derived from listed peer companies, which are applied on different (scenario-dependent) forecasted revenues for the Group. For the private company scenario, a discounted cash flow method is also considered in determining the equity value. Common share values are weighted by the probability of each scenario in the valuation model. In addition, an appropriate discount adjustment is incorporated to recognize the lack of marketability due to being a closely held entity. Finally, the impact on the share value of recent financing and secondary trading are considered.

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The valuations weighted the different scenarios as follows:

	2016	2015
Market Approach – High Case IPO	20 – 25%	20%
Market Approach – Low Case IPO	35 – 40%	40%
Market Approach – High Case Transaction	4%	4%
Market Approach – Low Case Transaction	6%	6%
Private Case – Income and Market Approaches	30%	30%

The key assumptions used to estimate the fair value of the common stock and contingent options using the PWERM are as follows:

	2016	2015
Revenue multiple used to estimate enterprise value	2.0 – 3.5	2.5 – 4.5
Discount rate (%)	14.0 – 19.5	13.0 – 14.0
Volatility (%)	35.0 – 47.5	40.0 – 45.0

Contingent options

The Group's derivatives include contingent options that provide investors associated with the equity financings with downside protection.

The contingent options are measured on a recurring basis in the consolidated statement of financial position and are Level 3 financial instruments recognized at fair value through the consolidated statement of operations. The contingent options are valued using the models that include the value of the Company's common stock, including the assumptions for probability scenarios and PWERM as determined above. The key assumptions used to estimate the fair value of the options using the PWERM are consistent with those noted above.

Under each scenario, the Group computed the difference between a) the value of the new shares, valued with the embedded contingent options and b) the common shares, valued without the embedded contingent options ("Common Shares") to derive an indication of the value of the contingent options for each scenario. The differential between new shares and the Common Shares were discounted, where appropriate, to present value to arrive at an indication of the value of the contingent options for each scenario at the valuation date. Finally, the indicated values under each scenario were weighted based on the weightings noted above to determine the indicated value of the contingent options.

The impact on the fair value of the contingent options of using reasonably possible alternative assumptions with an increase or a decrease of share price of 10% results in a range of €79.9 million to €121.9 million (2015: €71.6 million to €102.4 million) at December 31, 2016.

The table below presents the changes in the contingent options liability as at December 31:

	2016	2015
	(in € thousands)	
At January 1	**82,008**	**6,606**
Equity financing transactions - contingent options	—	87,787
Loss/(gain) recognized in profit or loss	17,638	(12,385)
At December 31	**99,646**	**82,008**

The contingent options liability is included in derivative liabilities on the consolidated statement of financial position. The change in estimated fair value is recognized within finance income or costs in the consolidated statement of operations.

Warrants

On October 17, 2016, the Company sold, for €26.9 million, warrants to acquire 128,000 shares of its common stock (Warrants) to certain holders that are employees and management of the Group. The exercise price of each warrant is US$2,024.40, which was equal to 1.2 times the fair market value of common stock on the date of issuance. The Warrants are exercisable at any time through October 17, 2019. The warrants are measured on a recurring basis in the consolidated statement of financial position and are Level 3 financial instruments recognized at fair value through the consolidated statement of operations. The warrants are valued using a Black-Scholes

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option pricing model, which includes inputs determined from models that include the value of the Company's common stock, as determined above and additional assumptions used to estimate the fair value of the warrants in the option pricing model as follows:

	2016
Expected term (years)	1.85 - 2.09
Risk free rate (%)	0.77 - 1.14
Volatility (%)	35.0 - 37.5
Share price (US$)	1,687 - 1776

The table below presents the changes in the warrants liability as at December 31:

	2016 (in € thousands)
At January 1	—
Issuance of warrants for cash	26,872
Loss recognized in profit or loss	7,147
At December 31	**34,019**

The warrant liability is included in derivative liabilities on the consolidated statement of financial position. The change in estimated fair value is recognized within finance costs in the consolidated statement of operations.

The sensitivity analysis below calculates the impact of increasing and decreasing expected volatility by 10% as well as the impact of increasing or decreasing the expected term by half a year. The following table shows the impact of these changes on finance costs.

	2016 (in € thousands)
Actual change in fair value recognized within finance costs	7,147
Warrants fair value adjustments increase (decrease) under the following assumption changes	
Volatility decreased by 10%	(4,200)
Volatility increase by 10%	4,364
Expected term decrease by 0.5 year	(6,672)
Expected term increase by 0.5 year	5,846

The impact on the fair value of the contingent options of using reasonably possible alternative assumptions with an increase or a decrease of share price of 10% results in a range of €21.2 million to €43.4 million at December 31, 2016.

Convertible notes

The convertible notes are measured on a recurring basis in the consolidated statement of financial position and are Level 3 financial instruments recognized at fair value through the consolidated statement of operations. The fair value of the debt was determined based on consideration and weighting of two future scenarios, a Near Term Exit (where the debt is convertible into shares of common stock in the case of a qualifying event) and a Private Company Case. All components of the debt under the Near Term Exit and Private Company Case, with the exception of the share cap, which assumes a risk free discount rate, were discounted at the implied rate on the date of issuance plus the chosen benchmark rate. The calculation under the Private Company Case, assumes the debt is repaid at maturity.

A binomial option pricing model was used to assess the value of the Price Cap Derivative. The key assumptions, including the weighting of the different scenarios and those used in the valuing the Price Cap Derivative, were as follows:

	2016
Case - Near Term Exit	70%
Case - Private Company Case	30%

	2016
Risk free rate (%)	0.6 – 0.7
Discount rate (%)	14.4 – 17.0
Volatility (%)	35.0 – 42.5

The table below presents the changes in the convertible notes as at December 31:

	2016 (in € thousands)
At January 1	—
Loan financing transaction - convertible notes	861,301
Loss recognized in profit or loss	245,053
At December 31	**1,106,354**

The change in estimated fair value is recognized within finance costs in the consolidated statement of operations.

The sensitivity analysis below calculates the impact of increasing or decreasing the expected underlying interest rate by 100 basis points. The following table shows the impact of this change on finance costs.

	2016 (in € thousands)
Actual change in fair value recognized within finance costs	245,053
Convertible notes fair value adjustments increase (decrease) under the following assumption changes	
Discount rate decreased by 100 basis points	15,636
Discount rate increased by 100 basis points	(15,105)

The impact on the fair value of the convertible notes of using reasonably possible alternative assumptions with an increase or decrease in share price of 10% results in a range of €1,114.7 million to €1,101.3 million at December 31, 2016.

24. Commitments and contingencies

Obligations under leases

The Group leases certain properties under non-cancellable operating lease agreements. The lease terms are between one and ten years, and the majority of the lease agreements are renewable at the end of the lease period.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	(in € thousands)	
Not later than one year	25,386	16,108
Later than one year but not more than 5 years	97,161	81,596
More than 5 years	90,271	111,453
	212,818	**209,157**

Total lease expenses were €18.9 million, €14.2 million, as restated, and €10.6 million, as restated, for the years ended December 31, 2016, 2015 and 2014, respectively.

The Group also has finance leases for various items of equipment. The obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are disclosed in note 18.

Commitments

The Group is subject to minimum royalty payments associated with its license agreements.

	2016	2015
	(in € thousands)	
Not later than one year	25,554	32,335
Later than one year but not more than 5 years	14,245	4,282
	39,799	**36,617**

Contingencies

The Group is and may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business. In order to stream sound recordings over the Internet we license certain rights from various organizations. These organizations have the right to audit our playlists and royalty payments, and any such audit could result in disputes over whether we have paid the proper royalties. If such a dispute were to occur, we could be required to pay additional royalties, and the amounts involved could be material. The results of complex legal proceedings are difficult to predict, and the Group's view of these matters may change in the future as the litigation and events related thereto unfold. The Group expenses legal fees as incurred. The Group records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Group's operations or its financial position, liquidity, or results of operations.

25. Related party transactions

Key management compensation

Key management includes members of the Company's executive committee and the board of directors. The compensation paid or payable to key management for Board and employee services includes their participation in share-based compensation arrangements. The disclosure amounts are based on the expense recognized in the consolidated statement of operations in the respective year.

	2016	2015 Restated	2014 Restated
		(in € thousands)	
Key management compensation			
Short term employee benefits	3,890	15,422	3,086
Share-based payments	17,788	9,971	784
Post-employment benefits	652	112	68
Termination benefits	587	—	—
	22,917	**25,505**	**3,938**

As noted in note 16, the Company issued warrants to acquire shares of its common stock to certain members of key management of the Group.

The Group recognized partner revenues from its associate in Soundtrack Your Brand Sweden AB of €1.9 million during year ended December 31, 2016 (2015: 0.6 million, 2014: 0.1 million).

Notes to the 2016 consolidated financial statements

26. Group information

The Company's principal subsidiaries as at December 31, 2016 are as follows:

Name	Principal activities	Proportion of voting rights and shares held (directly or indirectly)	Country of incorporation
Spotify AB	Main operating company	100%	Sweden
Spotify USA Inc.	USA operating company	100%	USA
Spotify Ltd	Sales, marketing and customer support	100%	UK
Spotify Norway AS	Sales and marketing	100%	Norway
Spotify Spain S.L.	Sales and marketing	100%	Spain
Spotify GmbH	Sales and marketing	100%	Germany
Spotify France SAS	Sales and marketing	100%	France
Spotify Sweden AB	Sales and marketing	100%	Sweden
Spotify Netherlands B.V.	Sales and marketing	100%	Netherlands
Spotify Canada Inc.	Sales and marketing	100%	Canada
Spotify Australia Pty Ltd	Sales and marketing	100%	Australia

There are no restrictions on the net assets of the Group companies.

Information about associates and joint ventures

The Group holds an equity interest in Soundtrack Your Brand Sweden AB, this interest was diluted in December 2016 from 30.7% to 26.5% resulting from a financing round in which the Group did not participate. The total assets and net assets of Soundtrack Your Brand Sweden AB are not material to the Group.

The Group co-founded a joint arrangement, Symposium Stockholm AB (Symposium), in 2015. In December 2016, the Group divested its interest in Symposium to its joint arrangement partner. This did not have a material impact on the Group consolidated financial statements.

27. Events after the reporting period

In February 2017, the Group entered into a 17 year operating lease agreement to occupy approximately 380,000 square feet at 4 World Trade Center in New York, New York, United States of America. The total estimated base rent payments over the life of the lease are approximately €480 million. The Group also will incur costs to build out the floors to its specifications. We have committed approximately €26 million for a letter of credit as security on the lease.

Subsequent to year end, the Group completed acquisitions of four privately held companies for cash and stock totaling approximately €39 million.

Subsequent to year end, the Group signed multi-year license agreements with certain music labels and publishers. Included in these agreements are minimum guarantee commitments of approximately €2 billion for royalty payments over the next two years.

CO Rem. Ex. G.00056

CO Rem. Ex. H

Corrected Transcript

24-Apr-2019

Sirius XM Holdings, Inc. (SIRI)

Q1 2019 Earnings Call

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CORPORATE PARTICIPANTS

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Scott Greenstein
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Analyst, B. Riley FBR, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to SiriusXM's First Quarter 2019 Results Conference Call. Today's conference is being recorded. A question-and-answer session will be conducted following the presentation. [Operator Instructions]

At this time, I'd like to turn the call over to Hooper Stevens, Senior Vice President, Investor Relations. Mr. Stevens, please go ahead.

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

Thank you, Matt, and good morning, everyone. Welcome to SiriusXM's first quarter 2019 earnings conference call. Today, Jim Meyer, our CEO will be joined by David Frear, our CFO. And at the conclusion of our prepared remarks, management will be glad to take your questions. Scott Greenstein, our President and Chief Content Officer, will also be available for the Q&A portion of the call.

First, I'd like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially.

For more information about those risks and uncertainties, please view SiriusXM's SEC filings. We advise listeners to not rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

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As we begin today, I'd like to remind our listeners that today's results will include discussions about both actual results and pro forma adjusted results. All discussions of pro forma adjusted operating results assume the Pandora transaction closed January 1, 2018 and exclude the effects of stock-based compensation and certain purchase price accounting adjustments.

With that, I'll hand the call over to Jim Meyer.

James E. Meyer

Chief Executive Officer and Director, Sirius XM Holdings, Inc.

Thanks, Hooper. Good morning. I can't think of a more exciting time to be at SiriusXM newly joined with Pandora and forging our own unique path in audio entertainment. I'd like to thank the entire team at SiriusXM and Pandora for working so hard and so effectively to make our combination a success. We are right where we want to be and moving very fast.

We have a new organization and reporting structure to emphasize speed and to bring people together. It's still the first inning. But I'm pleased with the enormous progress we've made so far in streamlining our business, developing new strategies and working so well together.

We are pleased to initiate new pro forma revenue guidance for 2019 of approximately $7.7 billion. Reiterate adjusted EBITDA guidance, now pro forma, of approximately $2.3 billion and reiterate free cash flow guidance of approximately $1.6 billion. And we are reiterating our existing SiriusXM subscriber guidance.

The hunt for Pandora cost synergies is going better than expected. Obviously, it's rolled into the guidance. But at this point, we expect to exit 2019 at an annual run rate of $75 million or more, up 50% from our call in February.

I want to emphasize the enormity of our new platform. We are now bar none the leader in audio entertainment in North America with over 100 million monthly listeners. That's roughly 35 million self-pay subscribers on the two services and 70 million ad-based listeners and trailers. The SiriusXM and Pandora suite of services both paid and free is really unmatched by any of our competitors. It's designed to appeal to listeners and subscribers – fans of music, talk and everything in between, as they move throughout the day from home to vehicle and beyond.

Now, you can accuse me of hyperbole, but with all the tools and offerings we now have, I've challenged our team that our goal should be to never lose a listener. And, by the way, we intend to use this platform to be a strong ally to artists as they grow their fan base and to labels as they break new artists.

Stepping back, the core business model and strengths of the SiriusXM service are unchanged. On match content, a powerful high-margin subscription business, long-term commitments from OEMs, and growing distribution out of car. We are extremely focused on delivering the excellent financial and operating performance that you've come to expect.

Our subscriber growth in the first quarter puts us solidly on track to achieve our full-year guidance of SiriusXM self-pay net add additions approaching 1 million. Churn was stable and ARPU in the first quarter grew at its fastest rate in nearly nine years at 4.4%.

We were pleased that auto sales remained robust in the quarter. We continue to see strong new car penetration and a build out of our domestic fleet. With our go standard deal at Toyota phasing in later this year, our penetration rate will exceed 80% next year, and the enabled fleet size should grow to over 200 million vehicles

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over time. Growing new car penetration also extends the tail of our used car business where we continue to make investments in technology and field teams. Our used trial distribution has now grown to 37,500 dealerships.

We are more focused than ever on accelerating the rollout of our 360L platform across our new vehicle penetration. You may have seen the press release from General Motors in January, announcing the all new model year 2020 Cadillac XT6, which will debut with 360L. We're excited for further announcements from GM later this summer showing an expansion of 360L across a wide range of 2020 model year vehicles. 360L is the future platform for SiriusXM in the car, and all of our OEMs are at some stage in moving to full adoption.

Over time, we also expect that the 360L rollout will significantly benefit the Pandora platform by introducing a better native environment within the vehicle. The first quarter also saw the largest expansion in content line-up in SiriusXM history, with the addition of a 100 extra music channels. This will be joined over the summer by a variety of initiatives designed to increase the rich value of SiriusXM to our subscribers and potential subscribers. This summer, all Sirius Select subscribers will gain access to streaming at no extra charge, allowing them to take SiriusXM content out of the vehicle. With this step, we hope streaming becomes a part of the SiriusXM experience for a much greater number of our subscribers.

Our expanded video offering we'll also roll out this summer and with more content continuously added should reach a couple thousand video clips by the end of the year. And we will launch a personalized streaming music feature within SiriusXM powered by the Pandora Genome. Think about that. Just a few months after the merger, the heart of Pandora's personalized service will become a part of the SiriusXM experience. These long-term investments in SiriusXM product and brand are a big, big deal.

We also recently launched an $8 per month streaming-only package called Essential, which includes a music and talk package built especially for people who want to listen on mobile, tablet, desktop and home devices. With new plans like this, streaming at no charge for most SiriusXM subscribers, and the deployment of 360L more of our content delivery than ever will be across IP, and that's before we talk about Pandora.

As I've said before, Pandora's assets, great talent, technology, products, data and brand properly manage will deliver value to our shareholders and position SiriusXM for meaningful long-term growth. And there are tremendous number of product initiatives underway at Pandora to improve both the user experience and the business.

I like to joke that I spent 10 years telling people that the Music Genome was no good. Well, guess what, it's very good. And I also used to joke that I used to stay up at night worrying about Pandora's position in the car. Well, on that front, maybe I should have slept better, because in the car, the Pandora position isn't so strong. And that's an area we are going to improve dramatically.

When it comes to the merger, I can tell you we're very far along and moving very fast on cost reduction. We see where we need to go here. Revenue synergies will be our next focus and will take a bit longer. There's still a lot of work to do at Pandora. But the financial results in the first quarter highlight improving sales execution.

First quarter revenue grew 14% and RPM hit an all-time first quarter high of nearly $63 and gross margins significantly expanded. But we still need to make much more progress against two key goals; stabilizing ad base listening and strengthening our position as the largest digital audio advertising player in the U.S. These will require a long-term focus on expanding content, vastly improving auto integration, continuing improvements in ad technology and solid execution.

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A couple of updates on our consumer features and ad products on the Pandora side. Premium Access, which was launched in early 2018, lets ad supported users unlock interactive features by watching short video advertisements. This will allow us to continue to grow our share of digital video ad budgets and economically give our free listeners more interactivity. We will continue to expand podcasting initiatives, which I'll talk more about in a moment. Dovetailing with podcasts, we also launched Pandora Stories earlier this year, which allow artists and creators of all kinds to blend spoken word with music.

At about a month ago, we launched Pandora Modes giving listeners more control over what kind of songs are played on their stations. For instance, they can opt for deeper discovery, more crowd favorites, or new release content.

The past year has also been a time of innovation and improvement in Pandora's ad technology. Earlier this year, we began selling commercial time in streams targeting smart speakers like Amazon Echo and Google Home opening a path for advertisers to reach people as they use voice activated assistants in their home.

Our programmatic platform launched in 2018 is now delivering close to 10% of our audio revenue on Pandora and sold to over 170 different advertisers in the first quarter. The acquisition last year of AdsWizz has enabled us to create a large scale platform to serve the needs of leading audio publishers such as SoundCloud. This extends Pandora's ad reach to over 100 million listeners. And we have a real opportunity to further grow this off-platform business over time with other audio publishers.

Let me really emphasize this point, we are now actively in the market with the ability to deliver impressions across a base of more than 100 million listeners in the United States. Stabilizing and growing listener hours on the platform is priority number one at Pandora. It's going to take time and hard work, but we pride ourselves in doing what we commit to do and I'm confident we will get this right.

Over the medium and long-term, we expect Pandora will benefit from a more differentiated content offering, more efficient data-driven performance marketing, cross-promotion from the SiriusXM active and inactive user base, and a vastly enhanced in-vehicle experience. And, of course, we'll continue to focus on building stronger relationships with leading advertising brands.

Speaking of brands, I've talked about maintaining and growing our two great brands, SiriusXM and Pandora. The foundation of each is vibrant programming beyond what regular radio can deliver and with great curation and depth that goes beyond just the playlists. Using our content on both platforms is going to improve listener engagement and help us get more value out of our spending.

Scott Greenstein is leading Pandora's first-ever content team, which is looking at music, talk, podcasting, enhanced playlists, and interactive channels to deliver the best content to listeners. Earlier this month, we debuted Pandora NOW, a full-time SiriusXM channel, curated with the help of Pandora data. It's also available on Pandora as an interactive channel. It's very exciting to create this new listening experience for all 100 million-plus combined listeners.

Further, we recently made available a suite of SiriusXM's stellar talk, sports and comedy shows as podcasts exclusive to Pandora. Our Podcast Genome Project helps overcome the discovery challenge by evaluating content and leading you to the best stuff.

As I mentioned earlier, we added more than 100 new SiriusXM streaming music channels, the largest addition ever; all of them based on our existing popular channels, but more finely tuned to fit any mood, occasion or

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activities. These have been a hit and have driven an increase in streaming activity on the SiriusXM platform. Quite frankly, I've never seen so much creation and energy pouring into our content offering as I'm seeing today.

Just to conclude, following the close of Pandora, we have resumed our stock purchase program. David will expand on that in a moment. The SiriusXM business continues to scale in both terms of subscribers and profitability, and we are positioning the brands and service for long-term success. We are in the early stages but moving very quickly on the necessary steps with Pandora. We feel confident about our newly-issued guidance and we are excited to be creating the best audio entertainment company in the world.

With that, I'll turn it over to David.

David J. Frear

Chief Financial Officer and Senior Executive Vice President, Sirius XM Holdings, Inc.

Thanks, Jim. Good morning, everyone, and thanks for joining the call. As you heard from Jim, SiriusXM had a fantastic quarter. The auto market continues to be healthy, churn performance continues to improve, ad monetization is strong, pro forma adjusted EBITDA grew 27% year on year, and we've already repurchased 63% of the shares issued in the acquisition of Pandora.

We've said this acquisition is not about cost synergies, yet we expect the cost synergies to exceed $75 million per year. The integration of the two companies is moving quickly. We have created Pandora's first content team and they have moved quickly to bring Pandora NOW to SiriusXM and SiriusXM top content to Pandora.

As I discuss the results for the quarter, I'll focus on the pro forma results, which combine the two companies for the full quarter in both years. To help put this in a historical context, we'll make available nine quarters of pro forma trended financials for the combined company on our IR website.

As you consider our new guidance for the combined company, please note that we are maintaining our original free cash flow and adjusted EBITDA guidance. We feel confident that SiriusXM can absorb the Pandora operations and meet or beat the guidance we gave you in January.

So, let's dive in. Robust March SAAR brought the first quarter in at 16.9 million cars, just 1% off Q1 2018 strong pace. Increased fleet mix in an unexpected head unit change at an Asian OEM pushed pen down to a little over 73% in the quarter. Nevertheless, we remain confident that our pen rate will exceed 80% as we move into 2020.

The installed base of vehicles grew 11% year over year to 119 million or approximately 45% of the total cars on the road in the U.S. The used car penetration rate was approximately 44% in the quarter, ticking up above 400 basis points year over year and help lift self-pay gross additions from the used channel to 38% of the total up from 33% in the prior-year period. Used car trial starts grew 18% at the end of the quarter, the total trial funnel stood at over 9.3 million.

Self-pay net additions in the quarter were 131,000 ahead of our expectations, bringing the self-pay base above 29 million for the first time ever. With a flat paid trial funnel, the total subscriber base reached a record 34.2 million subs. Net adds benefited from continued strong churn performance at just 1.8% per month identical to the strong churn performance from last year's first quarter with rising vehicle churn being offset by improving voluntary churn.

SiriusXM ARPU in the quarter was $13.52, growing as Jim said by 4.4%, which was the fastest rate in nine years. Together with more than 3% growth in our subscriber base, SiriusXM's segment revenue for the first quarter grew

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8.5% to nearly $1.5 billion. Contribution margin at SiriusXM remained robust at approximately 70% flat year over year. Total cost of services grew in line with revenue to $569 million compared to $524 million in the prior-year period. Together this produced a gross profit of $926 million, up 8% over the first quarter of 2018, and resulted in a gross margin of 62% approximately flat. This is the last quarter we'll have a clean look at the separate economics of the two businesses, and I'm thrilled to report that adjusted EBITDA at SiriusXM clocked in at 40.6%.

At Pandora, advertising revenues had their best first quarter ever, posting 7% growth to approximately $231 million, higher in quarter bookings, strong sell-through and pricing, growth from the AdsWizz platform, and the first contributions from the SoundCloud relationship drove this strong performance.

Ad RPMs for the quarter totaled a first quarter record $62.60, approximately 13% higher than the first quarter of 2018. MAU and ad hour trends continued downward with MAUs down 9% to 66 million and ad hours down 11% to 3.42 billion. Through investments in content, distribution, vehicle integration and ad technology, product and cross-promoting the brands, we believe the combination of Pandora and SiriusXM gives us an unbeatable product line-up.

Pandora's self-pay subscribers grew by 246,000 net additions in the first quarter and by 9% or 534,000 net adds versus a year ago to a total of 6.16 million. Paid promotional subscribers were up by 736,000 year over year, following a successful third quarter partner promotion. This growing subscriber base produced subscription revenue of $134 million, up 29% over the first quarter of 2018.

Total Pandora revenue in the quarter grew 14% to $365 million. Total cost of services held flat over the prior year at $254 million with lower revenue share and royalties as a result of the restructuring of the minimum guarantees to the music label which had burdened the prior year by about $15 million. As a result, Pandora's gross profit jumped 73% to $111 million in the first quarter. This represented a margin of approximately 30%, 1,000 basis points higher than the first quarter of 2018.

For the combined company, revenue grew 10% to approximately $1.86 billion with adjusted EBITDA growing 27% to $567 million. This resulted in an adjusted EBITDA margin of 30.5% in the quarter growing over 400 basis points from the prior year, driven primarily by revenue growth and cost efficiencies.

As you look at the combined P&L, nearly every cost deducted in arriving at adjusted EBITDA declined as a percentage of revenue. Of the 4 percentage point improvement in adjusted EBITDA margin, SAC contributed 1.4% revenue share and royalties contributed 1.2%; and G&A and sales and marketing combined to contribute 0.9%. And the contribution from the cost synergies is still to come. We converted approximately 53% of this adjusted EBITDA into free cash flow totaling $300 million in the first quarter of 2019, not including a month of pre-acquisition results of Pandora.

Our effective tax rate for the quarter totaled 33.3% compared to 21.7% in the prior-year period with the change driven primarily by an increase to the valuation allowance related to several research and development credits as a result of our expected use of Pandora NOLs. We continue to expect our full-year effective tax rate to be approximately 24%.

Earnings per diluted share for the first quarter of 2019 on the GAAP basis were $0.03 with a fully diluted average share count of 4.68 billion shares, which included the issuance of 392 million shares related to the Pandora acquisition.

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Based on our strong performance so far this year, our new pro forma guidance for 2019 calls for revenue of approximately $7.7 billion. We are maintaining guidance for self-pay net subscriber additions at SiriusXM of approaching 1 million and even layering in Pandora, we are maintaining adjusted EBITDA guidance of approximately $2.3 billion and free cash flow guidance of approximately $1.6 billion.

In the first quarter, we spent approximately $604 million to repurchase 101 million shares at an average price of $5.96 and paid approximately $57 million in dividend. Year-to-date capital returns totaled approximately $900 million. From the date of the announcement of the Pandora transaction through Monday, we have repurchased over 63% of the 392 million shares issued in the transaction.

Total debt now stands at approximately $7.2 billion with no bond maturities until August 2022. Leverage is 3.2 times trailing pro forma adjusted EBITDA with $62 million in cash and nearly $1.2 billion available under our revolver at quarter end. We entered the second quarter with ample liquidity to continue investing in the business, pursuing strategic investments and returning capital to shareholders.

And, operator, with that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'd like to open the call for questions. [Operator Instructions] And your first question will come from Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning, guys. Jim, just sort of two maybe bigger picture questions. The first one is you guys have been generally delivering kind of better than expected churn and conversion rates when you look across all the channels at the satellite business over the past few years. And I'm wondering as you bring Pandora in, how do you manage the company so that people remain focused and not distracted by all the new opportunities and challenges ahead and if we externally should be expecting more volatility? I'm guessing based on the prepared remarks, you guys remain quite confident in your ability to walk and chew gum, but I wanted to hear your thoughts on that since it's a new challenge for you?

And then second, a little bit related, we've been spoiled by kind of consistent margin progression at this business for years. And as you think about pivoting or migrating to more and more streaming, does that change? Is there a period of time where you're either reinvesting back in the business more or changing the unit economics or do you think you can harvest this sort of streaming opportunity at the combined company, while continuing to deliver on a steady margin expansion over time? Thank you for your thoughts.

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

So, Ben – yeah, thanks, Ben. Let me take them – let me take the first one and then on the second one, David and I'll kind of both contribute.

On the first one, I almost feel like you've attended the over I think I don't know how many town halls and employee meetings I've had over the last eight weeks as we've rolled out our new organization and talked about what our priorities are. Rest assured I understand very well what we've delivered at least under my tenure over

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the last almost seven years of CEO, as being the CEO and what our team has done. More importantly, our team understands it very well. We're organized for success there and quite candidly Ben, I don't expect any kind of a blip in that performance based on having anything to do with Pandora, okay?

And frankly, I still see a very strong performance this year in terms of our subscriber metrics, so we're very focused and we won't lose that focus. I also – I love the acquisition of Pandora, I love having it in our portfolio. I particularly love all the options it gives us, starting with – I think just this month alone, we've shown the power of being able to create – to be able to show what combining human creation along with a very strongly performing set of automation called the Pandora Genome together what the vast variety of content opportunities we have that I couldn't be more excited. That said, we fully understand the SiriusXM model and we fully understand where we need to keep our attention and rest assured I give you my commitment, we have that.

On the second point, I don't expect it to be a big change in the way our margins perform. We obviously don't know what will happen to webcasting five years down the road and where those costs might go. But what we do I think fully grasp and what is a wave that is sweeping across this company and I think frankly it's been good, it's been accelerated by bringing the Pandora team under the same umbrella is that we shouldn't care where people listen. Our job is to get people to listen. And when they listen, I'm confident particularly on the SiriusXM platform, no matter which platform they listen on, we're going to monetize that better than anyone else and consistent with where we've gone.

I can't help but crow a little bit and it'll be the last time I crow on this. But in the first quarter on the SiriusXM side, we delivered EBITDA margin of more than 40%. That's been a goldmine for since I've been in-charge of the company and it's something I'm very pleased with. Obviously, we will be much more focused on the total EBITDA margin of the company going forward.

David, do you want to add anything on that question?

David J. Frear
Chief Financial Officer and Senior Executive Vice President, Sirius XM Holdings, Inc.

A

Yeah. Ben, I think in a lot of ways that on the old SiriusXM side, there really is no change, right? We've told you that we thought that EBITDA margins could exceed 40%; they have. But we've also said that what our real objective is, is to drive the maximum amount of free cash flow out of the enabled vehicle fleet. That continues to be the way we think about it with just a little bit of a twist now that we have got Pandora's 66 million listeners onboard, it drives the maximum amount of free cash flow out of that listener base whether they're in vehicle or whether they're out of vehicle.

And we've long been willing to invest in initiatives that we think will drive more free cash flow out of the business even if it comes at the expense of margin expansion. And so, look, in the short-term, obviously driving after cost synergies is going to improve the, let's call it margin efficiency of the combined organization, there's solid growth in Pandora coming, and we think we can get that in a very cost effective manner.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you both for your comments.

Operator: And next, we will go to Sebastiano Petti with JPMorgan.

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Sebastiano C. Petti
Analyst, JPMorgan Securities LLC

Q

Hey, thanks for taking the question. Just wanted to see if you could unpack the 1Q self-pay subscriber results in the quarter. I think you called out the OEM that drove the pen rate lower, but it implies – I guess, the results imply that conversion rates were a little bit lower in the quarter. Any color you could potentially give us on that?

David J. Frear
Chief Financial Officer and Senior Executive Vice President, Sirius XM Holdings, Inc.

A

I think that the quarter came in above our expectations. And so, we're on track for guidance. With the automotive business, it's funny – it's hard for me to say the words, the automotive business is slowing. I know it's factually correct, but selling at a 16.9 million pace is incredibly strong. But it is less than the prior year. And with the pen rate down a little bit, there's a little bit less coming into the top of the funnel.

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

Yeah. David, I just want to emphasize, the blip in pen rate this quarter is not a mid or long-term phenomenon, okay? We understand exactly what occurred there. Quite candidly, it is a short-term issue that many initiatives were underway to improve that. It's not a big deal; I assure you that. Stay focused on what I said, which is my – our commitment to you is that you should plan our business going forward from the beginning to the end of this year at an 80% or greater penetration rate. And I'm really confident in that number.

So, I reiterate what David said, there really wasn't anything in the first quarter certainly compared to the plan that David and I laid out for our team that we drew up honestly back in the fourth quarter for what we expected in the first quarter that gives us any concern.

Sebastiano C. Petti
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for that color. And then, just thinking about – you mentioned that bringing Pandora into the fold gives you kind of the good, better, best. You had the ad supported, you had the $5 and $10 tiers at Pandora, and then higher monetization at the legacy Sirius satellite platform. Can you just think about how does that product suite evolve over time? Obviously, you just recently launched a new $8 streaming service at legacy Sirius as well, so just kind of thinking about how your thoughts evolved there and potentially any color on revenue synergies that could – new product suites that could evolve over time? Thank you.

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

Yeah. So, the honest answer is I don't know. I do know I love the different combinations. As Scott's team brings us more and more opportunities and our marketing teams figure out how to package those, I think you're going to see us try a whole variety of stuff and test into things that give us quite candidly that answer, the point that David made earlier that end up resulting in the most free cash flow down the road.

I do want to make a couple of comments. And I don't want to sound too much hyperbole but I really like our position. I mean, over 100 million monthly listeners, over 80% penetration long-term in new vehicles for a long, long time to come with the tail of the used car business behind that, we now have the ability to take the best of human curation and machine generated, artificially intelligence generated music genome, and combining those

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into a variety of unique products, and now two very powerful revenue streams in advertising and subscription, I just think gives us a tremendous ability to go after the radio platform in the United States like no other.

I don't know specifically what combinations will evolve. I can tell you – I'll just candidly tell you, I've been really surprised how much positive feedback we've gotten just on the Pandora NOW channel from the SiriusXM subscribers. So, I think the answer to your question is we're just going to keep trying it based on our insight, our experience and our consumer knowledge and adjusting it quickly to what our customers love.

Sebastiano C. Petti
Analyst, JPMorgan Securities LLC

Q

Great. Thanks, guys.

Operator: And our next question will come from Vijay Jayant with Evercore.

Vijay Jayant
Analyst, Evercore Group LLC

Q

Thanks. This quarter you guys reported pretty good monetization on Pandora, even though your ad supported lifting hours was declining. So, there seems to be some inefficiencies you've gotten even though you haven't really turned around the listening hours which is really your key focus. Can you just talk about how much more there is? Obviously, we're waiting for ad listening hours to improve, but just the efficiency of improving on the current level of listenership, what's the opportunity there?

And second, I think this is the first time you didn't report the subscriber acquisition cost on the satellite side. I know the mix is shifting with the Toyota standardization. Can you just talk about how should we expect that to trend? Thank you.

David J. Frear
Chief Financial Officer and Senior Executive Vice President, Sirius XM Holdings, Inc.

A

Yeah. I'm pretty sure subscriber acquisition cost in fact for install is in the material, but I guess we didn't comment on it. SAC per install came down, let's say it was something like $4 year on year, and it's really strong performances. The pen rate shortfall is a little disappointing for us, but it is a short-term thing. But the good side about having lower installs is that you end up with a lower SAC right, but the unit costs continue to be down, my guess is if it's not in the press release, you'll see in the Q.

On the monetization side at Pandora, look, actually we're finding as we get to learn that business. We're pleasantly surprised to meet the – they have a really talented scaled digital ad sales team. And they aggressively manage the inventory and the ad capacity, they are very, very aggressive in new product development from an ad format perspective and the team has done a fantastic job of increasing yield on what they do sell. And as you move into points of the year like – the first quarter is a soft time of the year for the ad business, and so it's especially gratifying to see them get this kind of monetization improvement in a soft period in the year.

And it's like a lot of other things. These guys just go in and they slug it out in the field every month and they go out and hunt and they're tough on pricing and tough on sell-through. So, quite honestly Vijay, it is just good nuts and bolts execution by the ad sales team.

Vijay Jayant
Analyst, Evercore Group LLC

Q

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Great. Thanks so much.

Operator: Our next question will come from Brandon Ross with BTIG.

Brandon Ross
Analyst, BTIG LLC

Q

Hi. Thanks for taking the questions. A couple. You mentioned you had restructured some of the bad Pandora label deals with minimum guarantees. Where do you stand in reworking those deals overall? And maybe if you could tell us how big you think the margin benefit could be there? And then I have another one.

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

So, David will handle that. But I just want to clarify, I don't think we ever called them bad deals, okay? I mean – and those conversations have been ongoing for months just to be clear.

David J. Frear
Chief Financial Officer and Senior Executive Vice President, Sirius XM Holdings, Inc.

A

And in the – the results we spoke about today was actually those deals were recut by the prior management team. I think the Pandora executive team and the music industry has had a pretty good healthy relationship in the last few years. It was little rocky a few years back but they're through that period and they – and so really it was something that Roger and Naveen delivered.

Brandon Ross
Analyst, BTIG LLC

Q

Great. And then maybe a follow-up on the revenue synergies question. Can you speak more specifically how big you think the opportunity is for Pandora to drive Sirius subscribers and what you could do in addition to adding Pandora now to Sirius to sort of upsell subscribers from Pandora to Sirius?

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

So, I mean I think I was quite explicit on cost synergies and the reason is because I feel like David and I are pretty confident we understand where those numbers are going and I don't like to say anything on these calls unless I'm quite confident that we know where we're going. So, I'm not going to give you an answer today on revenue, because I'm not confident enough to give you that answer.

What I am confident in is I see endless possibilities and they just keep continuing to develop. And so, we're going to test a whole bunch of things. My guess is for a long, long time and evolve into those revenue synergies that we can get. I will tell you I think it makes infinite sense that inevitably we ought to be able to go fish in a pool of 100 million active free listeners and be able to pull out of that people who are willing to pay and put them into pay products that yield the best margin for our shareholders.

Second, on the flip side, we're going to run, I don't know, God willing a great auto company, I mean a great auto economy, we're going to run 24 million trials or whatever the number might be in 2019. We're going to be thrilled if we monetize one-third of that or slightly higher than that between used and new. That other two-thirds we ought to be figuring out how to get those people to go into a funnel that we still benefit from particularly our free funnels.

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And so, I really like the fact that we have the ability now to go between both, which are gigantic, both are a gigantic funnels, okay, if you think about it in the United States. How we're going to optimize that is going to be developed over time. And frankly, I think it's one of the finest puzzles we've worked on.

Brandon Ross
Analyst, BTIG LLC

Q

Great. Thanks for the color.

Scott Greenstein
President & Chief Content Officer, Sirius XM Holdings, Inc.

A

Yes. Jim, it's Scott. One other thing just on the Pandora to Sirius path, just one example, but you can multiply this into the thousands or ten thousands. If someone's listening or feeds a Garth Brooks Channel for instance on Pandora that is clearly someone who has an affinity to Garth. Right now, there is interstitials and other things playing on Pandora that are whether they're 30 seconds or 1 minute before different song that highlights that there is a Garth Brooks Channel on SiriusXM.

So, you can see where some may be perfectly happy and we're okay with that at Pandora and others that are wanting a deeper fan experience will be able to go and subscribe to Sirius, and you can multiply that in any area. Then you have comedy, there will ultimately be all forms of talk and sports clips, and I think there will be a path back and forth, fluidity going back on the content as sort of the hinge between the two. So, as Jim said, it's an exciting path to look down. We're definitely down it...

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

Thanks, Scott.

Brandon Ross
Analyst, BTIG LLC

Q

Thank you.

Operator: Now, we will hear from Jessica Reif Ehrlich with Bank of America Merrill Lynch.

Jessica Reif Ehrlich
Analyst, Bank of America Merrill Lynch

Q

Yes, thank you. Actually my first question Scott sort of just addressed. But I'll ask it anyway. You turning around the decline in Pandora, MAU seems to be a key focus, rightly a key focus, and you're increasing content. I'm just wondering about marketing. Scott just mentioned the internal channels or the cross-promotion. What else are you doing to drive listeners, new listeners or listeners back to Pandora? Then I have a couple of others.

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

So, look, I think Jessica we're going to do what we've always done in that particular area, which is use the appeal of our content and promote around that to both the audiences that we've captured as well as audiences that haven't come into one of our funnels. Quite candidly, when you look at the size now of the Pandora funnel, meaning users that are in it or users that have tried it and you look at the size of the SiriusXM funnel and then you look at where that's going with new and used cars, the opportunity just within those two is so big, I don't know that

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we have to worry that much about going outside of those two, but we will and we'll do it in association with our content launches, promoting alongside our artists and promoting alongside our content as it's introduced.

I will also tell you though the most effective marketing between those two platforms is on-air and in-app and within our communications to our trailers and our customers in general, and there you will see an acute marketing focus as we move forward.

Jessica Reif Ehrlich
Analyst, Bank of America Merrill Lynch

Q

Great. And then, two more. On the podcast side, the market seems to be getting crowded. Everybody is announcing podcasts like almost every day. Can you talk about monetization and what you are doing to stand out, what you are doing differently, or what you think you're doing to be different? And where do you see the long-term growth of the podcast market?

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

So, I'll take this and then Scott you can jump in if you want in a minute. But number one, Jessica, I don't think anybody has figured out the monetization question yet in podcasting. So, I'm not going to be so brazen to tell you we know the answer either. What I will tell you, the heart of the answer is going to lie in what do people listen to and how long do they listen. And once you solve that, I think monetization will follow.

We certainly have always believed in spoken word. It's funny in my mind and I'll give an example of one particular talent we've spent a lot of time with. We asked that individual, a big time talent, if they were interested in doing a radio show, that kind of hit him hard about the time commit. We asked that individual would you like to do a podcast, they jumped all over and want to do it.

And so, I believe in my mind, podcasting isn't a revolution, it's just an evolution in my mind of how spoken word is being delivered to customers in ways that they – another way that they may want to enjoy that content. Scott, do you want to add anything here?

Scott Greenstein
President & Chief Content Officer, Sirius XM Holdings, Inc.

A

Jessica, for me, the most exciting part and where I think the podcasting thing hasn't even been started even though you're seeing a lot of announcements is when you look back at the early days of satellite radio, you had FM largely on music, AM on talk, we've looked at that landscape as a company and said wait a second, there's no real comedy in here, there's not 24/7 league channels, big brands like the TV channels, like the Fox, CNN, MSNBC, brands you could create out of [indiscernible] (00:50:18) from magazines and other brands, and that sort of was the evolution.

When you look at the digital landscape, Pandora included, they've been if not exclusively virtually all music. So, podcasting comes along, and yeah, people are jumping on it. But the big brands, [indiscernible] (00:50:38) and many, many big personalities that are perfect for podcasting due to their time schedule or their other activities in the media business, but are not in there. Those brands and the bigger names are going to look for quality production, experience, real depth in audio production. That's where you can't erase our 10 years, 12 years as a company of doing this and being at the forefront of it. So, while there's a lot of announcements, what we're most excited about is what can come in going forward that's sitting on the sidelines waiting for this to evolve both creatively and monetarily. So, we...

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James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

Yeah. And I think...

Scott Greenstein
President & Chief Content Officer, Sirius XM Holdings, Inc.

A

...think we're well-positioned.

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

Thanks, Scott. And Jessica, one other point, I think we're just experimenting with it now. But I've seen some stuff and my gut tells me. Taking the creativity of what Scott just talked about and combining it with using some part of the Genome to make search and recommendation within that Pandora world a much better experience I think is going to yield a very strong product, so I like what we're doing here.

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

A

Operator, can we...

Jessica Reif Ehrlich
Analyst, Bank of America Merrill Lynch

Q

Great. And then...

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

A

Please go ahead.

Jessica Reif Ehrlich
Analyst, Bank of America Merrill Lynch

Q

Just one for David, sorry Hooper, but just on the buybacks, first quarter was – it seems like well ahead of your $2 billion pace. Can you talk – can you – is there any comment you can give on full-year outlook?

David J. Frear
Chief Financial Officer and Senior Executive Vice President, Sirius XM Holdings, Inc.

A

Jessica, the only thing I can tell you is we think the stock's of value at this level and so we bought it and bought it aggressively.

Jessica Reif Ehrlich
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

A

Operator, next question?

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Operator: Certainly. Your next and final question will come from Zack Silver with B. Riley FBR.

Zack Silver
Analyst, B. Riley FBR, Inc.

Q

Okay. Great. Thank you for taking the question. I wanted to just touch on the Amazon announcement around free ad based service on the Echo. Just curious if it affects what you have characterized in the past as an expanding relationship with Amazon and if it doesn't then what maybe is next in store with that relationship?

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

So, this is Jim, I'll comment on a couple of things. Number one, look, the space has always been jammed with competition. This is just one – another step of competition and so it doesn't surprise me at all that it's occurred.

I'll also tell you I spend a lot of time personally with Amazon. It's a complex company and so I don't fully understand their different motivations. What I do know is that we want customers to experience our products in an easy-to-use environment in the car, but now just as importantly in the home, and we'll continue to make that service available as much as we can, as easy as we can on various home devices over the next several months.

Zack Silver
Analyst, B. Riley FBR, Inc.

Q

Got it.

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

A

Great.

Zack Silver
Analyst, B. Riley FBR, Inc.

Q

And then...

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

A

Sure, go on.

Zack Silver
Analyst, B. Riley FBR, Inc.

Q

... just one more if – yeah, just one more if I could just on the Essential's plan. I know it's early days, but how big of a market do you think that this represents? And then, do you think that the unit economics of the Essential subs are significantly different than your legacy subs?

James E. Meyer
Chief Executive Officer and Director, Sirius XM Holdings, Inc.

A

Well, number one, I think we wouldn't have introduced the product if we didn't think it was a good profitable product for us. I don't know. I'm excited about getting out there and getting this price point going. This stuff is still

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newer to us in the standalone streaming area. So, I'm not going to hazard a prediction yet. I've been pretty clear though that this is an area of focus where we want to drive subscriber growth.

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

A

So, Zack, I'd tell you that from a profitability perspective, I mean we don't know how big it's going to be, but certainly from a profitability perspective if the people who come in on that plan listen in ways consistent with other people that we have listening online that it's without a doubt margin accretive to our business.

Zack Silver
Analyst, B. Riley FBR, Inc.

Q

Great. Thank you very much.

Hooper Stevens
Senior Vice President-Investor Relations, Sirius XM Holdings, Inc.

Thank you so much – thanks, Zack. Thanks everybody for participating in today's call. We'll talk to you next quarter.

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30-Jul-2020

Sirius XM Holdings, Inc. (SIRI)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

James E. Meyer
Chief Executive Officer & Director

BUSINESS HIGHLIGHTS

Performance

- Sirius XM's second quarter represented extremely resilient performance and one of the most challenging times in our company's history
- Our business performed significantly ahead of our expectations during Q2 with a quick and improving pace month by month
- And we are moving aggressively to boost our streaming engagement, execute on long-term goals such as 360L deployments and invest in a growing podcast market

Net New Subscribers, Revenue, Adjusted EBITDA and FCF

- During Q2, despite the effects of stay-at-home orders on the economy, we added about 200,000 more net new subscribers than we did in Q1
- And while our revenue was down 5% vs. last year on lower advertising revenue, our adjusted EBITDA was flat
- On our first quarter call, I told you we would continue to generate substantial positive FCFs and we did just that in the quarter, generating approximately $0.5B in FCF, a bit than last year's second quarter

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- We are poised for a strong finish to the year despite the uncertain economic outlook and rising COVID-19 cases in parts of the country
- We are resuming our practice of providing annual guidance
- We now expect approximately 500,000 self-pay net subscriber additions, total revenue of approximately $7.7B, adjusted EBITDA of approximately $2.4B and FCF approaching $1.6B.
- To put our business outlook in perspective, compared to 2019, we expect self-pay subscribers will grow, revenue will decline slightly on the COVID-driven hit to our ad sales, and adjusted EBITDA and FCF will be about the same
- As I have said many times, business models matter, and our business model is very resilient

Auto Sales

- Although auto sales fell substantially, Q2 finished better than it started
- April SAAR of 8.6mm was down 48%, but May SAAR improved to 12.2mm, and June SAAR further improved to 13mm
- Consensus for full year 2020 auto sales now sits at about 13.2mm, as analysts expect auto sales to continue to improve
- In addition to an improving retail mix of auto sales, our new car penetration rate continued to rise, up nearly 500BPS y-over-y to 77% in Q2
- We continue to expect to reach 80% by the end of this year

Deployment

- We have announced significant 360L deployments starting this year with a variety of automakers including Audi, BMW, Fiat Chrysler, Ford, GM's Buick, Cadillac, Chevy and GMC brands and Volkswagen
- Stay tuned for even more
- This deployment is now really gaining steam and we expect to end this year at about 1.4mm 360L vehicles in operation, a figure which should roughly triple in 2021
    - We're excited to give so many customers this enhanced experience

Used Car Business

- The used car business continues to provide a tailwind in H2 2020
- Used car penetration is now a shade under 50%, up about 500BPS vs. this time last year, while new vehicle starts fell 26% in Q2, used vehicle starts fell only 5%
- And for the first time ever, we had more used car trials than new car trials
- The pandemic and stay-at-home orders during Q2 helped accelerate more streaming engagement by our customers
    - This trend began last summer when we included streaming at no additional charge for the vast majority of our subscribers
- The amount of Sirius XM self-pay subscribers streaming every month has doubled since last summer

Advertising Rates

- We also took advantage of attractive advertising rates in Q2 to launch a large scale multimedia campaign which raised both the awareness and usage of the Sirius XM app

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- Of course, the biggest challenge we faced and the biggest drag on our financial performance has come from our advertising market that fell sharply, reducing our ad revenue by 34% in the quarter as compared to last year
- I will note that the trend within the quarter was positive, with April down 44% from the prior year, May down 38%, and June down 22%
- Although recovering, the outlook for advertising revenue remains uncertain for the rest of the year
- We've also been pleased that the reduction of advertising supported listening hours at Pandora has been abating
- After being down as much as 18% early in Q2, ad hours finished the quarter down less than 6% compared to the prior period
- We're seeing gains in hours spent listening to CE devices, mitigating declines on mobile and Web
- As important, Pandora ad hours are increasing for listeners 35 and older
- We are extremely excited about the prospect of assembling the premier suite of audio advertising products in the world

Acquisition of Stitcher and Simplecast

- The acquisition of Stitcher and Simplecast complement AdsWizz leading ad tech platform, and Pandora's digital audio sales capabilities
- Simplecast, a leading platform for podcast creators, strengthens our capabilities in content management and analytics

ADSWIZZ

- AdsWizz provides leading ad technology tools for publishers and advertisers, operates scaled ad marketplaces for podcasts and other audio content through both programmatic and direct sold product offerings
- Stitcher produces a number of high-visibility podcasts, has a leading ad network and sees about 150mm downloads per month
- When combined with the US audience reach of Pandora and SoundCloud, this combination of content, technology and sales capabilities will allow advertisers the opportunity to execute audience space buys with unprecedented scale, ease and efficiency
- Our expanded podcast efforts fit well with our existing advertising-led focus at Pandora and AdsWizz and position us to improve precision targeting, measurement, and monetization for the broader podcast market

VALUE PROPOSITION

- I'm thrilled for Sirius XM to participate more in this growing space which now draws more than 100mm monthly listeners and provides a unique value proposition for both listeners and creators
- We look forward to closing Stitcher later this year and for the opportunity to drive growth with investments in this space
- As always, producing and delivering fantastic content is always our number one job and we continue to do just that
- We are the owner of the original audio bundle and we've been delivering premium talk content since day one

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- Our shows are live and relevant to the times and we've witnessed an unprecedented response from both music and other entertainment's top talents with their willingness to participate in new programming and presentations on our platforms

U2X RADIO

- With one of the world's biggest bands, U2, we launched its much anticipated full time channel, U2X RADIO
- Each member of the band is deeply involved in creating and hosting exclusive shows on this channel
- And U2 said in press interviews, they relish the opportunity to expose both new and hardcore fans to their full catalog as well as remixes and rare recordings, something they noted as lost, an algorithmic playlist from other audio platforms

NEW ARTIST CHANNELS

- We've honed and elevated our game in music programming with the launch of several new artist channels on our satellite and streaming platforms
- We launched the 1st Wave on May 1, with The Prince Channel and other channels dedicated to Led Zeppelin, George Strait, David Bowie, The Eagles, Fleetwood Mac, Guns N' Roses, Metallica and The Rolling Stones
    - These channels all created with the artist, and in some cases their states were part of our Stream Free campaign in May

SIRIUS XM STREAMING SERVICE

- By opening up our Sirius XM streaming service for free during a time when people needed news, information and entertainment, we saw over 4mm people take advantage of it and, of course, we are now working hard to bring in many of those listeners as subscribers
- Earlier this month, we launched another suite of streaming channels with the Beastie Boys, Bob Marley, Coldplay, Queen and comedian Jim Gaffigan
- As various sports have returned to live action, we've been quick to get back to delivering the live broadcast and comprehensive coverage our listeners want and expect

LIVE GOLF EVENTS AND NASCAR RACES

- From the return of live golf events and NASCAR races in May, through the start of the MLB season last week and the restart of the NBA season tonight, plus IndyCar, Formula 1, IMSA races, soccer and horse racing, Sirius XM is back to offering sports fans an extensive live sports schedule
- And our Business Radio and Doctor Radio channels continue to assemble experts and leaders for exclusive panels and town halls to inform and discuss the variety, the array of effects COVID-19 is having on our health, daily lives and the national economy
- While no one would have predicted a 2020 like we've had so far, I am proud to say Sirius XM is not merely surviving this current storm

CLOSING REMARKS

- Our business model is strong, our employees talented and dedicated, and we are in an envious financial position

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- We are making smart investments in growing areas like podcasting and expanding the tremendous reach and capabilities of our advertising platform
- We have already seen very clear and positive trends across most of our business in the past couple of months, and we hope that this recovery continues
- Regardless of the fits and starts that may come, we will keep our heads down with a focus on execution and investing in a foundation that will enable us to grow for years to come

David J. Frear

Chief Financial Officer & Senior Executive Vice President

FINANCIAL HIGHLIGHTS

Churn Rate

- Sirius XM's second quarter was remarkably good considering the seismic challenges across the economy
- We added 264,000 self-pay net – our 44th straight quarter of positive self-pay net adds
- Our churn rate improved by 6BPS y-over-y to 1.6%, it was the lowest quarterly churn rate in more than a decade
- Non-pay churn actually improved in the quarter and lower auto sales resulted in significantly lower vehicle-related churn
    - These improvements more than offset a modest rise in voluntary churn
- New car conversion rate was down about 1 point year-on-year to 37%, while used car conversion remained steady in the mid-20% range

ARPU, Margin and Adjusted EBITDA

- Our ARPU rose 1%
- And excluding the advertising impact on ARPU, ARPU rose 3%
- Revenue declined 5% to $1.9B with nearly all of that decline coming from lower advertising revenue
- Despite losing $87mm of margin contribution from Pandora, adjusted EBITDA was roughly flat y-over-y at $615mm because of lower expenses across the board particularly in subscriber acquisition costs

Enabled Fleet and Advertising Revenue

- Our enabled fleet grew to 129.6mm vehicles or about 47% of the cars on the road in the US.
- At the end of Q2, the total trial funnel stood at 8.1mm, down from 9.1mm at the end of Q1
    - That contraction was sharpest in April but ended up being significantly better than what we had modeled at the start of the pandemic
- Fewer trials starting in Q2 will reduce self-pay additions in Q3
- With COVID cases surging in many parts of the country, there remains justifiable concern about the shape of the economic recovery
- Despite that, with improving visibility into the back half of the year, we feel confident in our subscriber guidance
- With this backdrop, there is also risk associated with the audio advertising market, but we feel good about hitting our revenue guidance of approximately $7.7B
- As advertising revenue builds in H2, Pandora's gross margin will expand at a healthy clip

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Auto Sales, Expenses, Cash Taxes and CapEx

- If auto sales outpace analysts' estimates in H2, SAC expense will expand with it, boding well for revenues in 2021
- We are confident of our guidance for adjusted EBITDA of approximately $2.4B for 2020
- The launch of SiriusXM 7 is expected later this year and the SiriusXM 8 launch should occur in early 2021
- We still expect to pay no federal cash taxes this year and a relatively small amount in 2021
- We estimate CapEx this year in the range of $330mm, which brings us to our FCF guidance of approaching $1.6B

Share Repurchases

- After suspending our share repurchases in March in response to the uncertain impact of COVID-19, we resumed repurchases just after our first quarter earnings call and bought back about $165mm of our shares in May and June
- We have put to work nearly $1B this year already with $525mm in share repurchases and dividends in H1 this year
    - That's $428mm of capital committed to our acquisitions of Stitcher, Simplecast and investment in SoundCloud

Interest Expense, Maturities, Net Debt, EBITDA and Credit Facility

- In June, to lower our interest expense and extend maturities, we very opportunistically issued $1.5B of new 10-year unsecured paper at a rate of just 4.125%
- And in July, we used the proceeds to redeem a similar principal amount of our 4.625% notes due in 2023 and the 5.375% notes due in 2025
- At the end of Q2, our net debt to trailing 12-month adjusted EBITDA ratio was 3 times and our $1.75B revolving credit facility was completely undrawn and fully available
- Our capital allocation and leverage targets remain unchanged and we expect to continue our share repurchases in the back half of the year

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QUESTION AND ANSWER SECTION

Steven Cahall
Wells Fargo Securities LLC

Q

I think you said vehicle churn improved and it was only a modest increase in voluntary churn. So, maybe any color on involuntary churn and since used trials are now more – started getting bigger than new trials, maybe you could give us an update on what churn is trending for your used subscribers vs. new subscribers, and I have a quick follow-up.

James E. Meyer
Chief Executive Officer & Director

A

David, why don't you take it?

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

So, Jim – yeah. So, on involuntary churn, I mean, you may have heard this from some other people in this earnings season, we're sort of stunned at the very low level of non-pay churn. It's something that we never would have guessed going into an economically sensitive period. And the fact is the rate on it has fallen. There are lots of theories out there on it that there is some writing that suggests that with the overall level of consumer spending down from past levels there is more room – more availability on credit cards, I think, as everybody knows that our subscriber base is 80% debit card and credit card. And so maybe it's that, maybe it's just that with the rise in voluntary churn that you have a little bit of a shift. It's tough to know but it sort of is what it is and performance on the churn side has been great all the way around.

With respect to used trials and churn rate on used cars, to me there's not a significant difference between what we experienced between the different types of cars, that generally as cars get older churn seems to be a little bit higher, but then you always have this thing with what's going on in the household. And so, I'd say that there isn't anything in the mix shift that's going to take us out of the performance rate that you've seen in churn of sort of being roughly in this 1.7% area.

Steven Cahall
Wells Fargo Securities LLC

Q

Great. And then on capital allocation, so with a little more M&A this year but with the business proving a lot more resilient as I think you said, how do we just think about capital allocation in the back half? FCF looks a lot like it did last year, does the buyback presumably look similar as well or if you were in our seat, would you sort of strip out what you might be spending on M&A as we think about your appetite for buyback opportunity. Thank you.

James E. Meyer
Chief Executive Officer & Director

A

David?

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

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Well, for a long time we talked about the business generating about $2B in excess capital and that remains true through today. And so that excess capital can go to external growth – acquiring external growth or in – to get to the FCF, we're investing everything we think we responsibly can to drive growth in the business. And then the next step is to go into that $2B and, say, is there something good to acquire out there like Stitcher and Simplecast which we think add critical components to our business. And then after that, we look at – we have our dividends and that's a little bit over $200mm a year allocation. And then what remains is available for buyback depending on price value relationships and the stock as the market goes up and down from time to time. So really, no change at all in our capital allocation policy.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

I have two questions. One on the OEM side and one on programming, Jim, could you give us – and I know you can't talk about specific OEM partners, but can you give a sense for the ramp in 360L and so now that that's in the market a little bit, if you're seeing more interest in bringing that product into more vehicles and sort of how quickly that might ramp over the next couple of years. And I think David said you'd be at 80% – I can't remember it's David or you, there'd be an 80% install rate overall later this year. I just want to confirm that because that seems like a bit of an acceleration from the last time we heard from you. So that's sort of the broader OEM question.

James E. Meyer
Chief Executive Officer & Director

A

Okay. So, Jennifer why don't you take the 360L question, please?

Jennifer C. Witz
President-Sales, Marketing & Operations

A

Sure. We are, I think as Jim said, we're in the process of ramping up. We launched with two of our OEMs over the past couple of years and we've had a number of announcements over the last couple of months with Audi VW, BMW and Ford. And really as with any other new product launch, you'll start to see this roll out in conjunction with new model year launches and new in-vehicle entertainment platform launches, it's really – the OEMs have been excited about this product. We've had great kind of engagement with consumers, especially on the features of voice, on demand and recommendations. And there is real buy-in from the OEMs.

So I think we said we expect the vehicles in operation to triple by the end of next year and then it will just keep ramping from there.

James E. Meyer
Chief Executive Officer & Director

A

Okay. And Ben...

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

And that's triple from 1.4mm at the end of the year.

Jennifer C. Witz
President-Sales, Marketing & Operations

A

Yeah.

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James E. Meyer
Chief Executive Officer & Director

A

Sorry, David, I just – I interrupted you.

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

Yeah. Just for Ben's sake, we expect to have 1.4mm vehicles in operation at the end of the year and then that to roughly triple in 2021.

James E. Meyer
Chief Executive Officer & Director

A

Okay. And then finally, Ben...

[indiscernible] (27:32)

James E. Meyer
Chief Executive Officer & Director

A

Ben, I'm really comfortable in the 80% guidance we gave you by year-end for penetration.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Terrific. And then just a quick content question, I'm sure you're not going to be surprised by it. Obviously, a lot of focus as there is every five years on The Howard Stern relationship, which I know there's only so much you can say, Jim. But is there any way to help us think about how much of Howard's library or how much of his content Sirius XM essentially retains the rights to long term? And I think when you guys last re-upped with him you created maybe a deeper, broader partnership that could last for a longer period of time. [ph] Just maybe to (28:10) help us to understand kind of how that product might evolve over the long term kind of with our without Howard or anything you could say at all since there's obviously a lot of focus on it?

James E. Meyer
Chief Executive Officer & Director

A

Sure. You've got a good memory, Ben, then – and your recollection is correct and I'll take to it just briefly. But first let me say – and this is not just rhetoric, okay? Howard is performing at the top of his game right now and it has been for a pretty consistently long time. I couldn't be happier with the status of Howard Show. In particular, given the transition he's made from doing everything in our studio at 1221 in New York to now doing it remotely and doing it flawlessly. And by the way, it's Howard and the team that we have that supports Howard. I'm really pleased – even just this last week his guest and the quality of the shows is terrific.

Number two, the least from everything I can tell, Howard is very happy with what he's doing. And I can tell you, it matters when Howard is happy, his shows are better and he's certainly more relaxed, I think just like all of us. I've been clear, I want Howard Stern to work at Sirius XM for as long as Howard Stern wants to work. And I've engaged with Howard's team. We began those conversations again late last year. Obviously the virus got kind of in the way of our cadence. We are reengaged, I can tell you, in those conversations right now. I know what Howard wants and we're trying to figure out a way to make all those things work together. I don't want to be overly optimistic here, but I want Howard here, and we'll work – let me say it this way, this process isn't any different to me than the last [ph] three (30:27). And so we'll keep working and we'll get there, I hope.

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Now, with that said – and by the way, at the end of the day, it's going to come down to also quite candidly what does Howard want to do. But quite – but back to your original question, yes, in our last agreement with Howard, we were under contract with him for a five-year period to do his live shows. And in the event that Howard wants to discontinue his live shows or, for instance, retire at the end of this year, we had the rights to his library for another period of years. I'm not recalling the exact date, but it was in one of our filings. And obviously we would do that. That's not what I would like. I want Howard on here. And he's an unbelievable talent and unbelievable for our brand. But, yes, there is a runoff period, that runoff period is very, very...

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

I think it's seven years, Jim.

James E. Meyer
Chief Executive Officer & Director

A

Okay. And that runoff period was something that both of us thought was important and included in our previous agreement. So we're going to keep working at this and I'm pretty sure at the next earnings call we'll have something to say here. But I'm focused, I guess, is the only word I can say here.

Jason B. Bazinet
Citigroup Global Markets, Inc.

Q

I just have a question on podcasts. The industry is still pretty embryonic and I would just love to hear sort of how you think sort of podcast – the podcast industry evolves over time and how – when you sort of look at various podcast properties, how you sort of think about how they fit into your overall strategy?

James E. Meyer
Chief Executive Officer & Director

A

Well...

Scott Greenstein
President & Chief Content Officer

A

Jim, you...

James E. Meyer
Chief Executive Officer & Director

A

And then Scott will pick up after I start. Okay. So...

Scott Greenstein
President & Chief Content Officer

A

Okay.

James E. Meyer
Chief Executive Officer & Director

A

So, Jason, first and foremost I think you're right. The word you used is a good one and that's why I think investors have to be a little careful about overcommitting to what the size of this business could be. We don't know. What we do know is we've been in the audio bundle business for a long time and so we – we think we understand for a

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very long period of time. If you look at audio entertainment kind of what the mix of that is between music and spoken word, and it's been fairly consistent for many, many years. But perhaps, a change in the way that content is delivered can accelerate that. We'll see.

That said, I think podcasting is a very important part of our audio bundle. I'll be quite candid with you, I don't see – I have – I don't know what the viability is of podcasting as a standalone business only if you're in the podcasting business. It takes an awful lot of investment, an awful lot of marketing, and an awful lot of things to do, but there's quite a few people out there and we certainly intend to support that on our platform side of our business.

I also believe the podcasting game is in the first inning. And for us, this isn't about, well, can we get this content, not have somebody else have it or any of that, that's not at all the way we look at it. The way I look at it and the way Scott and I drive it is primarily what content can we add to our platform that significantly either increases our value proposition or increases our customer engagement on our free platforms. That's really the way we look at it, and that's going to be a wide variety of content, and I don't believe any one particular – one or two or three titles is going to drive that. Scott, why don't you jump in?

Scott Greenstein
President & Chief Content Officer

A

Yeah. Thanks. So a couple of things, at its heart, podcasting is audio content. And when you look at that, obviously, our expertise as a company in that area speaks for itself. But when you look back at terrestrial radio, there was a lot of AM and FM content that was detectably talk content and it had a track record like Howard Stern and many others, you sort of knew what kind of audience was moving over.

So podcasting, as Jim said, we're in the first inning. It's evolving. Business models matter. When things emerge and become significant, we're certainly able to look at what would work in our platform. So that's number one.

Number two, the marketing aspect to podcast is very nascent and our Sirius XM and Pandora windows on any podcast automatically change the marketing game with that. And so, I'm particularly excited about content not isolated as, quote, podcast but as audio content that can flow all the way up and down. And as is – as mentioned, our ability now to have our financing and our business model complemented by our podcasting acquisitions with Simplecast and AdsWizz and now Stitcher is going to allow us maximum flexibility on it.

And the last piece is in that first inning concept, big talent in this area and brands and others are first getting involved and a lot of them have a lot to lose if their brands aren't as strong or positioned as well in this new podcasting way because as you can tell by the numbers, not many podcasts do very significant numbers. So I think our expertise in producing marketing and doing what we do and our marketing window on our platforms I think we are positioned real well to at least start going from here on in.

Brian Russo
Credit Suisse Securities (USA) LLC

Q

I have two. The first one, I was hoping you could talk about what your thinking is for M&A at this point. What types of assets might still interest you, is it technologies, content, is it [ph] mad (37:38) sales force or is your portfolio pretty complete at this point?

The second question is again relating to, I'll just call it, non-music. I think David said in the past I think that music somewhere between 80% and 85% of what your customers listen to. Do you think maybe spoken word content is more valuable to your product than its share of listening time would suggest? Thanks.

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James E. Meyer
Chief Executive Officer & Director

A

So I'll start and then I want David to comment on both of your questions. But I'm going to start with the latter first. We've always believed in non-music content. It's live by the way – and it's more than spoken word, we believe live sports is also a key part of the audio bundle. And I think we've proved it. I mean we've been at this for close to almost 20 years, right? And again, when I speak, I speak to what the customers in North America want. And so we've always believed in the value of the live bundle. I've also always believed that particularly in the subscription business, really my comment applies to the subscription business, customers pay for what they think they listen to, not necessarily entirely what they do listen to, okay? They pay for what their perceived value is of the service. And so I can tell you customers when you solve for instance a onetime for them in a month period an NFL game that they can't get normally and then you go back and ask them how interested are they in NFL, they'll tell you all the time.

I also think that the numbers you quoted from David are relatively close to what I believe the ultimate listening spread can be, but at any given time that can change in its mix during a particular period. So, in my opinion, the bundle is very, very important. This is not new news for us. We've been at it from day one with a bundle and we can – I can tell you, we continue to believe in that, and on the Pandora side, we will continue to expand the bundle from more than just music going forward.

David, can you take the M&A question and any comments you want on non-music?

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

Sure. So, just to finish up the music/talk side, I think, Brian, what we talked about in the past is for a long time there were a lot of studies out there that says AM and FM radio which is the largest population we have for looking at long-term trends in listening in North America which is what we're most interested in, that over the long term that's been an 85/15 split between music and talk. But you've got to remember that even within the music, a lot of what they're listening to is their favorite DJ in the morning and not necessarily the music. They're in it for the engagement. And we do skew below that long term average because of the preponderance of and the breadth of the content that we have.

In terms of level of importance, brand affiliation has always really mattered to us in that whether it's the NFL or the NHL or Howard Stern or the different news brands, that it creates an awareness and – of – it carries that brand through and builds awareness for us and gives just another reason for people to subscribe. How much they actually listen to the content that moves them is less important than it actually moving them. And so they might – someone might subscribe so that they can listen to Play-by-Play for out-of-market games and – that they can't get elsewhere, even though that's only once a week. But it might be that trigger that causes them to go.

And far and away, the most important part of the whole puzzle is the curation, right, because if you were just playing music with no hosts, it's – there's nothing differentiating about it. And so how they're packaged in the channels and what the host do with it and how you curate the non-music content, the pop-up channels which is more brand affiliation, that whole package is what Scott's team is focused on to really sort of drive interest in the service.

On the M&A side, I think we're in pretty good shape at this point for – and I don't think that there's – it's funny you've heard us say this in the past, I don't think there's anything we're missing. And so, for instance, on monetizing digital audio regardless of whether that's music or something called a podcast or something called an

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on-demand episode from radio, that we have a stack of products for the marketplace to buy if they're interested in buying them. So with Simplecast, we have a content hosting and data analytics platform that is flat out the best in the world.

Any podcaster regardless of where their podcasts are being listened to should want to be on that system. AdsWizz has the best technology out there for ad insertion and the order and buying process associated with digital audio advertising regardless of whether it's music or talk.

And John Trimble's team from the Pandora side is the largest scaled sales representation team in digital audio. So, if you're – it doesn't have to monetize on our listening platform. That's an additional benefit we get. But if you're anybody out there playing in the digital audio space, that you're going to want to be talking to us about how to improve your monetization because one of the big challenges in digital audio today is no one has scale. All the podcasters are – have fairly limited reach and it's an awful lot of direct response advertising, not a lot of brand advertising. And one of the reasons there is, is that the brands can't put enough money to work efficiently, and quite honestly, we have an array of products and an audience size across those products that solves that problem for brands. So, I think we've got all the pieces. That being said, there's always somebody else out there who can add a little bit more to what you got and we'll keep an eye out for the things that have good value.

Brian Russo
Credit Suisse Securities (USA) LLC

Q

That's very helpful and very interesting. Thank you both.

James E. Meyer
Chief Executive Officer & Director

A

Hey, Brian, one last point. It's Jim. I just want to point out also it's been a while now we've been actively involved but we like our investment in SoundCloud. We like the management of SoundCloud and David sits on the board along with another member of my team and we like – we'll see where it goes and how they do, but we like that position as well. And I think that also helps anchor our advertising off-platform business.

James Ratcliffe
Evercore ISI

Q

Two if I could. First of all, regarding the very strong churn number in the quarter, can you talk about what you're doing in retention? You mentioned your voluntary churn rise. Do you have any metrics around attempts to churn or anything like that? You guys don't make it particularly easy to disconnect. Just trying to get an assessment there of what's driving the lower churn activity.

And secondly, as the world changed a lot since you put out your January guidance, but looking at the July guidance vs. January, the revenue guidance down about $400mm, but EBITDA is only down about $100mm. Can you talk about what's the – yeah, the – what's driving that seems like implied OpEx growth and better margins? Thanks.

James E. Meyer
Chief Executive Officer & Director

A

Hey, David. I think those are both for you if I heard James correctly.

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

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Yeah. Actually, Jennifer, could you hear James okay?

Jennifer C. Witz
President-Sales, Marketing & Operations

A

Yeah. I think on the retention side, it's a couple of things. We have active save programs as you know, we've opened up a number of other channels, pushed a bit by COVID really, but on the digital side so -we have chats and messaging, and we're increasingly opening capabilities in digital, and we're improving our safe capabilities there. So, it's a combination of reinforcing the value, and of course, promotional offers.

But I would say one of the biggest things we've done and launched in the middle of last year, as you know, was providing streaming to the majority of the base. And while it's still new, we have, as Jim said, doubled usage among our self-pay base over that time period. And our retention among customers, not surprisingly, who engage with us outside of the car through streaming, is much higher. So that is something you'll continue to see us pushing. And we did a big campaign with Stream Free which was not only about getting new prospects into our streaming experience, but also driving awareness across our satellite trialers and our self-pay base about our streaming product.

[indiscernible] (47:56)

James E. Meyer
Chief Executive Officer & Director

A

[ph] Another point – (47:57) Jim Meyer and then I'll turn it back over to David is we're – and I won't be bashful here because I'm really damn proud of where we are. We're operating our – our both acquisition and sales retention teams are not just performing better now than they were when – which was our original comparison when COVID first impacted us and it had a significant impact on those teams early on. They're performing better than they were a year ago. And I'm really proud of what they're doing. And we've just settled in to now a formula that works and we're just executing it hour by hour, okay? And I can tell you, churn management is a lot about just Xs and Os and strong every hour execution and our team is delivering.

David J. Frear
Chief Financial Officer & Senior Executive Vice President

A

And, on the comparison between January and July in the revenue and the EBITDA, what – in essence what you have going there, clearly are – the self-pay additions are – not self-pay additions are expected to be, while they look pretty healthy now compared to what we thought a couple months ago, they're still down from our original guidance. And so subscription revenues will grow but they won't grow as much, and advertising revenues on the other hand are – they're going to take a hit this year, there's no doubt about that. So they have a big revenue down.

And then as you look at the line items in the P&L, so with lower auto production overall for the year SAC is definitely going to be down with fewer auto sales and fewer trials starts across the year, the sales and marketing campaigns to support them are going to be down year-on-year. And then it's sort of in our DNA that as soon as COVID hit and we had an understanding of the fact that our world had changed that Jim and the rest of the management team took a hard look at ad spending and costs and pace of hiring and projects that we are initiating and pullback because we've got an economic pullback going on.

So what you see is lower growth in subs than had originally been expected, the fall on advertising and then honestly solid cost management across the rest of the board helped make up some of that gap

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Corrected Transcript

26-Jul-2018

Spotify Technology SA (SPOT)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Spotify's Second Quarter 2018 Financial Results Question-and-Answer Session. A company of the company's shareholder's letter, issued before the market opened today, is available on the Investor Relations website, investors.spotify.com. This call is being recorded and an archived replay will be available on the IR site after the event concludes.

I will now turn the call over to Paul Vogel, Head of Investor Relations and FP&A. You may now begin your conference.

Paul Vogel

Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

Great. Thanks, Josh. Thank you and welcome to Spotify's second quarter 2018 earnings conference call. With us today are Daniel Ek, Spotify's CEO; and Barry McCarthy, Spotify's CFO.

The format of today's call will be similar to last quarter. Daniel will give a few brief opening remarks, followed by an online question-and-answer session. Questions can be submitted either through the widget alongside the webcast or by e-mailing directly to ir@spotify.com. We'll get to as many questions as we can. The call will last approximately 30 minutes.

Before we begin, let me quickly cover the Safe Harbor. During this call, we will make forward-looking statements, including projections or estimates about the future performance of the company. These statements are based on current expectations and assumptions that are subject to risks and uncertainties.

Actual results could materially differ because of factors discussed on today's call and in our letter to shareholders and filings with the Securities and Exchange Commission. During this call, we'll refer to certain non-IFRS financial measures. Reconciliations between our IFRS and non-IFRS financial measures can be found in our letter to shareholders and on the financial section of the Investor Relations page on our website and also furnished today on Form 6-K.

And with that, I'll turn it over to Daniel.

Daniel Ek

Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

Thanks, Paul, and thanks, everyone, for joining today's call. So I think second quarter results show continued strong growth in all of our core metrics, and our goal is to each quarter deliver within our stated guidance, and most of our key metrics finished towards the top end of our forecast ranges. And as I said at the Investor Day, we believe we're still in the very early stages of the global streaming market with a very large opportunity still in front of us.

Before we begin the question-and-answer session, I did want to address one thing that's been written about a lot over these past few weeks around Spotify signing direct licensing deals with artists. As we spoke about at our Investor Day, we're really building a two-sided marketplace that provides tools and services for labels and artists focused on promotion and marketing. And as a platform, we've always licensed music from rights holders, both large and small, and we will continue to license music from whomever owns the rights.

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And we have been doing this for years because our goal is to get as much music onto the Spotify platform as we possibly can. The long-term success metrics for this platform is growing the number of creators on our platform; growing the number of creators using our promotion, marketing, and career management tools; and three; the number of artists and labels paying us to use those tools and services.

Now, licensing content does not make us a label nor do we have any interest in becoming a label. We don't own any rights to any music, and we're not acting like a record label. Our agreements are specific to Spotify and are not exclusive, so we want to grow the number of labels and creators on the platform as well as the number of creators using our tools and services.

So in some cases, we license from labels; and in others, artists if they own the rights to their own music. We believe there's been some confusion regarding our intention, and for us, it's really about providing the largest opportunity for the widest group of creators and artists to bring their music to Spotify.

Thanks. And now we can begin the question-and-answer session.

QUESTION AND ANSWER SECTION

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Great. Thanks, Daniel. We'll start with our first question from Ross Sandler of Barclays.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Can you unpack what drivers you see over the next few years to bridge the gross margin increase from today's mid-20s% to the 30%-35% range?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, let let's kind of up level it and talk strategy for a moment. As I kind of alluded in the opening remarks, the overarching goal for us is to build the marketplace for all creators and labels on how they better interact with Spotify. So if you think about that, that means that we're really trying to grow the number of creators that are on our platform.

We're trying to grow the number of creators that are using our tools, and then thirdly trying to increase the number of those people that then are paying us to use those tools and services. So that's essentially the strategy through which we're going about growing our gross margin. It will be less about ongoing licensing discussion and much more about inclusion of the services that our marketplace is providing.

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

And so let me add, I'd like to remind our listeners that at our Investor Day, we included a slide on the long-term margin structure for the business and included gross margins in the 30% to 35% range. That remains our vision

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and objective for the business. If we're successful in building a two-sided marketplace and developing the tools to own demand creation, then I think we'll land comfortably in that range.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

And then, Barry, just a quick follow-up. This one came in.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

You mentioned in the letter that your long-term gross margin target is 30%-plus. You mentioned 30% to 35% at the Investor Day. Is there any change?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

No, no change. Our objective remains 30% to 35% for gross margin.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Great. Thanks. Next question is from Matt Thornton at SunTrust.

Matthew C. Thornton
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Any update on the progress on the artist label side of the two-sided marketplace?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, I think, that's been clear in our earnings remarks, we are seeing really, really good remarks. We're seeing overall growth of 5% of more number of artists being heard, and Spotify for Artists is growing very nicely and has hit a new milestone of over 200,000 artists monthly. Both of those are incredibly positive and are ahead of where we expected.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question is from Rich Greenfield at BTIG.

Richard Greenfield
Analyst, BTIG LLC

Q

Podcasts and non-music audio appear to be a relatively minor portion of listening time today, we presume 1% to 2%. Is that fair? What are you doing to grow that share over time, and what timeframe should we look for progress?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

It is fair that music is still the vast majority of all listening on our platform. That said, we're very encouraged with the growth of podcasts. It's growing really, really fast but obviously from a small base today. It's unclear long term

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how big that opportunity is. I think everyone in the entire industry is trying to figure that out. But we're certainly of the belief that it's going to be a significant portion of what we do going forward and are investing to make both the product experience better and driving the number of creators onboard our platform.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Anthony DiClemente at Evercore.

Anthony DiClemente
Analyst, Evercore ISI

Q

Can you talk about churn in the quarter at least directionally, and does it continue to come down as much as expected as the tenure of subscribers ages and as Family, Student plans grow as a percentage of the subscriber mix?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

The short answer is yes and yes. Let's see. Let's talk about the business overall, the global business. The churn in the quarter was down year-over-year about 900 basis points. And then secondly, I want to talk specifically about the U.S. since I've seen a couple of news articles reported an increase in churn as a result, I think, of Apple competition.

It, in fact, is not what happened. But we also have seen improvement in the U.S. and in the most recent quarter in the U.S. saw a three handle on churn rate. So very encouraged by the business overall on a global basis and in the U.S. in particular.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Great. Our next question is from Eric Sheridan at UBS.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

Data analytics, should investors think of this as a stand-alone business or one that makes the music industry smarter and could play a constructive role in the commercial dialogue with the music industry?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Data and insight is definitely part of the platform and a key fundament for how we view the marketplace. As mentioned, Spotify for Artists today is we just kind of up-level for a second and look at what it is. It's amazing insights for artists and labels today about how they're doing and who their audience is.

And we've never before been at a place in time where you could make as many informed decisions and understand your audience as well as you can do now as an artist, and we're seeing a lot of these artists making much smarter decisions on the basis of this.

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As an example, you have an artist like Metallica who changes their setlist on a city-by-city basis just by looking at Spotify data to see which the most popular songs happen to be in that city, and there are many, many other examples.

Our view is if artists and labels have better data and can make better insights, they are going to also take action on those insights. Then, that's kind of key fundament that's also been prevalent on the rest of the Internet.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Our next question is from Amy Yong at Macquarie.

Amy Yong
Analyst, Macquarie Capital (USA), Inc.

Q

As free cash flow piles up, how should we think about priorities of cash? What types of organic/inorganic opportunities do you see? Any updated views on balance sheet optimization?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

No updates on balance sheet optimization. It's steady as things go. I want to remind everyone that our overarching objective for the business, in addition to our strategic goals, is to continue to generate positive free cash flow ex the CapEx investments in new office space in New York, Boston, L.A., et cetera.

Our goal with respect to cash is to manage it smartly, like we do all of the other asset allocation decisions we make in the business. If in the fullness of time, we decide or it becomes clear that the business is overcapitalized, then you should expect us to use that cash productively to buy back shares in the marketplace.

We're nowhere near deciding that we can't constructively deploy the cash we've raised. The biggest single investment opportunity in front of us is to acquire technology that helps us achieve faster the strategic objectives for the business. You've seen us make several acquisitions over time which have contributed to the success of the business, and we are continuing down that path.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Our next question is from Jessica Reif-Cohen at Bank of America Merrill Lynch.

Jessica Jean Reif-Cohen
Analyst, Bank of America Merrill Lynch

Q

UMG was reported in the press to be considering a move to monthly accounting for royalties owed to artists versus the current quarterly or semiannual basis. Should this shift happen, how will this impact your working capital profile and free cash flow prospects?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Shouldn't affect the free cash flow of the business at all. We remit to labels monthly.

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Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Our next question is from Michael Morris at Guggenheim.

Michael Morris
Analyst, Guggenheim Securities LLC

Q

Why is your direct artist relationship business not an incremental threat to your relationship with the labels? A recent FT article described labels as withholding rights in India due to your licensing music directly from artists. Is this accurate? How can you grow your direct business without creating risk of poor relationships with the major labels?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

So, again, I think the goal of the marketplace is to create tools for all sizes of artists and labels. And if you just look at a label today and you look at how labels are investing, one of the largest costs for them is to figure out how to effectively market and promote an artist.

As we talked about in our marketplace strategy, the key objective that we're pursuing is taking the data and insights that we're generating on our platform and creating tools that allow artists and labels to better market themselves in the marketplace. And so, as I look at that, I think that this is a huge opportunity for all labels to become more effective. And if they become more effective, that will allow them to sign even more talent and invest even more and then further growing our mission as a company, of course, which is to allow 1 million creators to be able to live off of their art. So this is kind of a key component to make labels more effective than they are today.

Then to address specifically your question in regards to India, I think the truth of the matter is when you deal with licensing and, in our case, not just one company but you deal with local publishers, local record companies, global record companies, global publishers, it is always a complicated maneuver. And as much as I would like to say that we can accurately and timely estimate on the day when we're going to launch a market, there's always local considerations against that. And this has been true not just in India, but it has been true in, I think, pretty much every market that we've ever entered into as well. So delays, unfortunately, when it comes to licensing, for various reasons, is just commonplace in this industry and nothing related to our overall strategy.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Our next question comes from Mark Mahaney at RBC.

Mark Mahaney
Analyst, RBC Capital Markets LLC

Q

Any more color on Hulu bundle and whether we could see other bundle deals?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, as we outlined in the remarks as well, we're very encouraged by the early results on both launches, both the Hulu student plan and now the Hulu standalone plan. This is a huge part of what we're doing which is trying to find more ways to bring more value to our members on the subscriber base. We don't have anything to announce but

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you should look at it as part of our strategy, just like we've said before, to look at more ways to add more value for our members.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question is from Nick Delfas at Redburn.

Spyros Nicholas Delfas
Analyst, Redburn (Europe) Ltd.

Q

My Amazon Echo keeps trying to sell me Amazon Music Unlimited even though I have selected Spotify. What are your plans on speakers in home or in car?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, as we outlined in our Investor Day, one of our key strategic objectives is to be ubiquitous on all platforms. Music is one of those things that are used not just in your home like video, but really on mobile, in your car and in home. So our strategy is to look at all the major platforms, try to make sure that we have a best-in-class experience on all of those platforms, work with the platform providers of those to enable that experience, and we're seeing great results in the home and particularly in the connected speaker segments. It's still a pretty early market, I would say.

And then just specifically to address the car, too, that's a longer-term investment from our perspective. We are both working with manufacturers enabling so that you can connect your phone via Bluetooth and of course, we are a huge part of Android Auto, which is Google's car initiative and CarPlay which is Apple's car initiative. So this is part of our overall strategy of being in all places where people might want to have music.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question is from Rob Sanderson from MKM Partners.

Rob J. Sanderson
Analyst, MKM Partners LLC

Q

The adjusted MAU metric, well, looked to have been at the low end of guidance. Did GDPR have an impact, is the revamp of the Ad-Supported product performing to expectation? Also, can you offer early observations from the new product?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Let's see. At a high level, particularly from a revenue and margin perspective, the business is performing towards the high end of our expectations. I think it's clear that the top-of-funnel MAU growth in the quarter, given Street consensus expectations, was a couple million light, 1.5 million light.

And the question is what are the implications of that for the future growth of the business? And the answer is not much different than what we told you to expect last quarter. And the question is why, and the answer is because we're seeing great conversion in the paid business. We're seeing faster growth in the paid business than we were expecting, and we're seeing super strong retention in the paid business.

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GDPR was an issue for a couple of weeks and we were past that speed bump. If it had an impact on revenue in the quarter, it was less than €1 million. So quite small in the grand scheme of things. Now if the premium business grows faster than our expectations, we're going to have fewer free MAUs than we were expecting which creates a headwind for the free business.

Question: is the overall business better off or worse off? And the answer is the business is better off. It means if the paid business are growing faster than we expected, we will have more revenue than we expected, and we will have higher margins than we expected because the paid business has higher gross margins than the free business does. So it has meant good things for the business as compared with our expectations, and you know from our guidance we're expecting that trend to continue.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Great. I have some from Ben Swinburne from Morgan Stanley.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Barry, is Family Plan mix pressure moderating? How should we think about organic ARPU declines in the second half?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Yeah. A comment on ARPU last quarter. We've seen a sort of seasonal pattern of fluctuation in ARPU last year and expecting a similar pattern this year to decline in Q1, up in Q2, down in Q3, up in Q4, expect that pattern to continue, point one.

Point two, when we launched the Family Plan, we sold it across the entire base. During that launch, there was more downward pressure on ARPU generally because of growth in Family Plan than you will see this year and going forward because the installed base has already been sold to. So the only incremental pressure is at the margin. So be mindful of the seasonal pattern and then be mindful of this dynamic change, 2017 versus 2018 because there's no installed base to sell across.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question is from Peter Stabler from Wells Fargo.

Peter C. Stabler
Analyst, Wells Fargo Securities LLC

Q

Does the recent hiring of Dawn Ostroff signal an intention to aggressively pursue original video production?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

The easy answer on that one is no. Our primary focus, as we've said many, many times over, is audio and music in particular, and that remains our focus today.

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Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

The next question is from Heath Terry of Goldman Sachs.

Heath Terry
Analyst, Goldman Sachs & Co. LLC

Q

What kind of progress are you seeing in monetizing your Ad-Supported business? How much of that is ad load and how much is achieving higher eCPMs on your ad units? What's the appropriate long-term level of monetization to assume for Ad-Supported?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

It's mostly about increased sell through. The ad business is a tale of two growth rates: relatively slow growth on desktop and very fast growth on mobile. Increasingly, it's a mobile-first business. We have relatively high margins in our five largest markets – think of them as the developed world: U.S., Western Europe, Australia, New Zealand, Canada, by way of example – and then significantly lower margins in emerging markets where we're quite small.

So if you're an advertiser, limited opportunity for you to buy reach. But the dynamics of those markets are changing pretty quickly as we continue to grow quite rapidly. The challenge in those markets is sell-through rate. As they get larger, the challenge diminishes.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

The next question is from John Egbert at Stifel.

John Peter Egbert
Analyst, Stifel, Nicolaus & Co., Inc.

Q

It looks like your subscriber growth remains quite healthy. Could you give us any color on specific countries or geographies where you're seeing strong momentum and perhaps any emerging markets where you're seeing growth traction that could meaningfully influence subscriber growth down the road?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

I wouldn't single out any particular country or territory with respect to growth in the Premium business. We're growing strongly across the board. Family Plan is a big driver of growth.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question is from Richard Eary at UBS.

Richard Eary
Analyst, UBS Ltd.

Q

How has the price increase in Norway been received? Are you planning to launch HD products? If so, how big is the market opportunity?

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Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Well, let me up the level and then say you should not expect to see price increases from us across markets. We're playing a market share game. We're not playing a margin game. There may be opportunities for us in individual markets to test price elasticity, like we're doing in Norway, but don't expect a shift in strategy.

Now specifically with respect to Norway, we saw a brief slowdown in growth and then a few weeks later growth was right back to its historic level with no adverse change in churn. So it appears to have been well received in the marketplace.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question from James Cordwell at Atlantic Equities.

James Cordwell
Analyst, Atlantic Equities LLP

Q

Can you provide more detail on the data policy change you called out in the letter and what impact it had on ad revenue for Q2? When do you expect ad revenue growth to have fully recovered to the trend you were seeing prior to the change?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Let me just jump in and say it's fully recovered, which is what really matters.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Our next question is from Ashwin Kesireddy at JPMorgan.

Ashwin X. Kesireddy
Analyst, JPMorgan Securities LLC

Q

Can you comment on GDPR disruptions during the quarter? Any color on whether this was driven by advertisers taking a wait-and-see approach, or whether this was a compliance process disruption which would not repeat going forward?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Well, not everybody was equally prepared in the marketplace, so that caused some fallout. Then there were some examples of some advertisers who sought to use GDPR as an opportunity to leverage the renegotiation of data sharing in the marketplace, and that friction cleared the market in a couple of weeks, so relatively quickly. So I would say the overall impact from GDPR, ignoring the confusion of the moment when it went live, was relatively short-lived.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Another question for Barry from Justin Patterson at Raymond James.

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Justin T. Patterson
Analyst, Raymond James & Associates, Inc.

Q

How should we think about the impact of the new self-serve ads to your platform and the pace of the rollout? What are your early learnings from Ad Studio?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Well, we're – yeah, I'm not sure how to answer this – I'm not sure what the question is. I'm not sure if it's a question about Australia, New Zealand or if it's a question generally about the launch of Ad Studio. So let me take them sequentially.

In Australia and New Zealand, we are trying to discover whether or not we can have a more successful business for us and for advertisers by testing pay-per-listen, pay-per-view as an alternative to pay-per-CPM, and we're in the very early stages.

Let's talk about growth in automation. So this is an automated platform. If it's successful, it will have a large following in the SMB marketplace which would significantly expand monetization opportunities for our business and, if executed well, will result in an important shift in the overall cost structure of the business, dramatically expanding margins.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Next question is from Lloyd Walmsley from Deutsche Bank.

Lloyd Walmsley
Analyst, Deutsche Bank Securities, Inc.

Q

Can you give us an update on the competitive environment in the U.S. and otherwise? Is there a phenomenon you have observed where new entrants in a market can actually stimulate broader demand in a way that helps you?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Yeah. Well, our global subscriber growth continues to be really strong, and we continue, of course, to meet our growth goals for the business which you've seen over the last two quarters. In the U.S. in particular, we're also performing well and growing rapidly. And the U.S. churn continues to decline year-over-year and is now below 4%. So we continue to see a large opportunity for future growth.

And our growth is really coming both from the increased paid and Ad-Supported users in the U.S. So I think a good metric is to look at the total amount of Spotify users we have, and we are now at 2x the size of our nearest competitor in regards to that. So just to level set again, the streaming market really is still very much in the early stages and we're the largest global streaming music platform, and we expect our leadership to continue going forward.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

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Next question is from [ph] Erland Lewin (00:29:06). Finance costs in Q2 increased to €343 million from €154 million in Q1 and €148 million in Q1 of 2017. What is the reason for this increase, and do you expect higher finance costs to continue?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

It relates to two things. One is revaluation of the convert which is now gone. And then secondly, accounting for the cost of warrants, full stop.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

I'll try and get one or two more questions here. From Heath Terry of Goldman Sachs.

Heath Terry
Analyst, Goldman Sachs & Co. LLC

Q

What's your strategy for exclusive content such as your podcast deal with Amy Schumer? How do you expect the economics of exclusive content to compare to deals with the labels and publishers?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, so first off, let's level set for everyone. In music, we don't believe in exclusivity and haven't participated in that. In podcast, we do see that that marketplace works differently and that there is room for exclusivity and there's room for original content production to seed the marketplace.

This is probably something that you should expect us to test and experiment with. Some marketplaces are more well developed than others. I think interestingly, as we kind of look at the market, we have a very young audience. Typically there aren't that much podcasts available for them certainly when you look at a global space. Hence, we're very encouraged about seeding that and helping and develop that. As a cost basis, we kind of think, again, this fits really well into our dual monetization strategy of both Ad-Supported and subscription.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

I'll take two more questions. One from Ben Swinburne from Morgan Stanley.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Can you give us a sense for engagement trends, are content hours per user still growing at levels disclosed in the prospectus?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Not going to break it out, but we continue to feel quite good about the levels of engagement in the service. As we get better at developing the two-sided marketplace and driving discovery, and as we add new forms of content to the platform like podcasts, offering consumers a better service, we expect to continue be able to drive increases in hours consumed.

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Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

We'll take one last question from Louis Citroen at Arete Research.

Louis Citroen
Analyst, Arete Research Services LLP

Q

You said last quarter that the launch into new markets was built into your 2018 guidance. Could you give us an update on those, especially in the India, Russia, and Africa and how important those geographies were for your 2018 guidance? Any comments around ongoing discussions with the labels, which I think we already addressed.

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Yeah. I think we addressed the conversations with the labels. We're still looking at opportunistically launching in more markets across the world. Obviously, it's the big markets like Russia, India that probably will contribute the most. I don't have any further comments on any specific launch dates on those things. I will say, however, that any impact on our forecasts will be minor or immaterial.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

A

Great. With that, I'll turn over to Daniel for just some final closing comments.

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

Yeah, I would just say thanks again, everyone, for participating in our second earnings call as a public company. I really hope that you found the earnings call and the answer sessions helpful. And we will continue to be as open, as transparent as possible in providing insights into our business. And of course, as always, we welcome any feedback you have in making the earnings call better, and I look forward to speaking with everyone again next quarter. Thank you, everyone.

Paul Vogel
Vice President, Head of FP&A and Investor Relations, Spotify Technology SA

Great. Thank you.

Operator: This concludes today's conference call. You may now disconnect.

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Corrected Transcript

01-Nov-2018

Spotify Technology SA (SPOT)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Spotify's Third Quarter 2018 Financial Results Question-and-Answer Session. A copy of the company's shareholder letter, issued pre-market opened today, is available on the Investor Relations website, investors.spotify.com. This call is being recorded and an archived replay will be available on the IR site after the event concludes.

I will now turn the call over to Paul Vogel, Head of Investor Relations and FP&A. You may now begin your conference.

Paul Vogel

Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

Great. Thank you and welcome to Spotify's third quarter 2018 earnings conference call. With us today are Daniel Ek, Spotify's CEO; and Barry McCarthy, Spotify's CFO.

The format of today's call will be similar to prior quarters. Daniel will give a few brief opening remarks, followed by an online question-and-answer session. Questions can be submitted either through the widget alongside the webcast or by e-mailing directly to ir@spotify.com. We'll get to as many questions as we can, and the call will last approximately 30 minutes.

Before we begin, let me quickly cover the Safe Harbor. During this call, we will make forward-looking statements, including projections or estimates about the future performance of the company. These statements are based on current expectations and assumptions that are subject to risks and uncertainties.

Actual results could materially differ because of factors discussed on today's call and in our letter to shareholders and filings with the Securities and Exchange Commission. During this call, we'll refer to certain non-IFRS financial measures. Reconciliations between our IFRS and non-IFRS financial measures can be found in our letter to shareholders on the financial section of the Investor Relations page of our website and also furnished today on Form 6-K.

And with that, let me turn it over to Daniel for a few brief opening remarks.

Daniel Ek

Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

All right. Thanks, Paul, and thanks everyone for joining today's call. Our third quarter results demonstrated continuing strong growth across our business and most of our key metrics finished towards the top end of our forecast ranges.

As we have discussed on prior calls and at the Investor Day, we continue to be focused on building out our two-sided marketplace. In this quarter, we launched a number of new tools and services for artists, including a direct upload feature for independent artists, a playlist submission for creators looking for ways to get their music onto our editorial playlist and enhance functionality, really across all of Spotify for Artists.

And today, approximately 250,000 creators use Spotify for Artists on a monthly basis and we expect these tools to help us continue provide the largest opportunity for the widest group of creators and artists.

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This quarter, we also announced several important partnerships that represent significant opportunities for growth and additional value for new users and existing subscribers. In the U.S., just yesterday, we announced a new partnership with Google where new and existing Spotify Family plan master account holders can receive a Google Home Mini as part of their subscription and we see great potential in this partnership.

And as we have said before, we made an early strategic bet on connected speakers back in 2014 when we were on the very first Google Home voice speakers to be shipped. Now as connected speakers become more and more important to consumers, we're excited to be adding to our momentum with speakers and voice, and we will continue to build on our partnership with Google over the coming months.

In the quarter, we also announced a long-term agreement to be the out-of-the-box music service on Samsung devices and we introduced our first multi-partner bundle in the U.S. with Hulu and Showtime. And we entered into a partnership with Sky, which is Europe's largest pay TV service to allow users in the UK and Ireland to add Spotify directly to their cable bill. And we announced a partnership with DAZN, a fast-growing sports subscription streaming service in Japan.

We remain very confident in the growth ahead of Spotify and you can expect to continue to see us manage for growth over profitability as we strive to create an ecosystem of discovery and benefits for millions of artists, billions of consumers and really the entire music industry.

And with that, let's open the floor for questions.

QUESTION AND ANSWER SECTION

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Great. Thanks, Daniel. So our first question comes from Matt Thornton at SunTrust.

Matthew C. Thornton
Analyst, SunTrust Robinson Humphrey, Inc.

Q

The commentary from the letter around accelerating investment in R&D and content in 2019, and the pressure it would cause on operating margin. Is this pressure relative to the over performance, or the over performance in operating margin in 2H 2018 or is this a signal of the operating margin outlook has changed? Given you're still looking for positive free cash flow, we presume the operating margin pressure would not be that different versus 1H 2018 run rate.

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Let me begin with an answer and then see if Daniel wants to supplement. So we saw increased operating margins in the current quarter more than we were anticipating because we weren't able to deploy investments in R&D as rapidly as we had hoped which means that the pace of product innovation is slower than we had anticipated. And we meant to signal our intent to reverse course and accelerate the pace of investment which will pressure operating margins more than they are currently being pressured by the rate of R&D investment which is what we were trying to signal.

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Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Great. Our next question comes from Ben Swinburne at Morgan Stanley.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

You recently revamped the Premium app. Parentheses, I am a fan, some are not. Can you talk about what in your view were the key changes, the strategic objective and if there has been any impact on engagement trends or churn?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, let's really take two steps back. We continue to make updates to our product and the user experience both of our free tier and our Premium tier. Historically what has happened is that those updates are shipped by every couple of weeks or so with new changes. What we continue to do is that we continue to look at ways where we can streamline the user experiences and make it more easy to use and more beneficial to users. And this is one of those changes that we had priorly shipped with very good results to our free users and we're now consolidating the code base by also putting the same functionality to our Premium subscribers as well. But all-in-all this is something that we had tested for months before and we're seeing really good results.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Great. Our next question comes from Mark Kelley at Instinet.

Mark Kelley
Analyst, Instinet LLC

Q

Can you please talk about the hiring constraints you mentioned in the letter. Are there certain skillsets or particular geographies where this is particularly pronounced?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, I think, overall, I mean it's not a big surprise to know that in particular when you look at engineering, machine learning, big scale engineering, those are all skills that are widely demanded in the marketplace. And for us it's not really about volume, it's about finding the right quality and that's not something that's I think different to Spotify than really any other technology company in the world and we're certainly looking at that scaling up both in Europe and in U.S. and we'll continue to make improvements to how we hire, and onboard and activate our workforce.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Great. Next question comes from Rich Greenfield at BTIG.

Richard Greenfield
Analyst, BTIG LLC

Q

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In your release you stated advertising margins will benefit from the shift to self-serve programmatic. Over what timeframe should we think about the shift occurring from a direct sales focus model you have today?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Many years is the short answer. Programmatic automated solutions account for between 20% and 24% of revenues currently and are growing at almost twice the rate of direct. We recently launched a new automated feature. It's still quite early. It's growing extremely fast, but off of a very small base, so one. Two, the market is moving aggressively towards programmatic solutions and faster in Europe than they are in the U.S., UK in particular. So we made it a point of technical emphasis from a product development standpoint and it's important that we'd be successful in order to find the operating leverage that the business requires long term, in order to generate attractive financial returns. So the market is heading there and we are driving there as fast as we can.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Our next question comes from Justin Patterson at Raymond James.

Justin T. Patterson
Analyst, Raymond James & Associates, Inc.

Q

Spotify for Artists beta features. Please talk about the music uploading and playlist submission. Are there any early learnings on how that's helping artists promote their music better? Additionally, could you explain how these features could benefit labels over time?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Yeah. I mean, again, we're very encouraged with the early results of this beta test in the U.S. And so far we've now seen on the new music submission more than 67,000 artists that have submitted their works through that product and over 10,000 new artists that have been added to editorial playlist for the very first time connecting their music with thousands of new fans, so we're very encouraged by the early results of this.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Heath Terry of Goldman Sachs.

Heath Terry
Analyst, Goldman Sachs & Co. LLC

Q

With reduction at the top end of your guidance and the increase in operating profit expectations, is there a reason that incremental profit isn't being used to drive subscriber growth? Does this say something about the incremental cost of subscriber additions? What are you seeing in the cost of acquiring customers?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

Heath, Barry. If you think back to our commentary during the Investor Day, we made two important points, one is profit margin as a managed outcome. It's a byproduct of the pace we choose to invest in new features and functionality to drive growth. Second point is the three ways to invest in growth, one is marketing, two is geographic expansion which we're pursuing aggressively, and three is investment in features and functionalities

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that drive a better user experience which drives more engagement, which drives more customer satisfaction – which drives more word-of-mouth and organic growth, improves LTV, and importantly improves LTV-to-CAC ratio.

So, I guess, the third point I'd make is, for those who aren't familiar with the company, it's an engineering driven org, very product focused, and so the incremental investments are all about building features and functionality that make for a better user experience. And the point is to accelerate the growth of the business as a consequence of those product investments and as a consequence of the investments we're making in geographic expansion.

So in terms of the commentary in the letter because you could see the margins expanding faster than we had forecast they would, we were concerned that your expectations would get ahead of ours in terms of the future trend lines, so we added some cautionary language. We've given you an incomplete picture of the future and not yet commented on 2019 and any benefits that might result from the investments we're making, so appreciate your patience. That will come on the next call.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Mark Mahaney at RBC.

Mark Mahaney
Analyst, RBC Capital Markets LLC

Q

Can you talk about the progress of Spotify's integration with Samsung devices? Does this appear to be leading into a meaningful adoption of Spotify and a ramp to Premium subs?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, again, it's a very recent announcement that we made with Samsung. It's a multi-year partnership. And it's something that we're actively rolling out as we speak. So I think it's too early to talk about the progress. That said, taking a step back I think when you look at the landscape, we are an independent player in this. And one of our key strategies is to partner with as many players as we possibly can. And by being an independent player in all of this that opens up with that strategy where we can be on every device which we know that our customers really enjoy. Because the truth of the matter today is that there is a lot of customers out there that have devices of many of these ecosystems whether it be Amazon, the Google, or Apple ecosystems, and Spotify's goal is to be a top-notch user experience on all of those devices.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from John Egbert at Stifel.

John Peter Egbert
Analyst, Stifel, Nicolaus & Co., Inc.

Q

How should we think about podcast and how significantly you're investing in that format? What are some of the challenges you face in building out the content for podcast and how do you approach negotiations with content owners? Is there an opportunity to strike fixed cost deals or more advantageous variable licensing agreements for podcast relative to music content?

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Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

I think we're still in the very much early days of how the whole podcast marketplace will evolve. So right now, we're experimenting with different deal types, both fixed and variable, but I think over time the way we are looking at this is that this is an integral component. When you look at the landscape overall and you think about something like radio, the truth is that the vast majority of the minutes that are being spent on radio today haven't yet moved online.

So our opportunity really is gigantic when you look at that and there aren't too many companies in the world that are focused on that opportunity of bringing audio online. And as part of that obviously, we think non-music content has a very important place and we're really investing in both, improving the user experience around that, but also improving monetization for creators in that space.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Ross Sandler at Barclays.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

What pace of ARPU decline do you expect to see in 2019 compared to the current decline between – and how is it impacting your international mix, Family plan and FX, and what are the biggest drivers?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

The biggest driver will be growth in Student and Family plan, bigger than geographic expansion, one. Two, the rate of decline will continue to decelerate and I think that's all we are going to say about ARPU at the moment.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Michael Morris from Guggenheim.

Michael Morris
Analyst, Guggenheim Securities LLC

Q

Can you provide more detail on the Google Home partnership? How is it accounted for and how does it impact margin? Will Spotify be in some way prioritized as a streaming service for users relative to Google's YouTube Music?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, let's talk about the user experience first and foremost. Yeah, it's a great partnership that we have with Google on the devices that are shipped to customers. Spotify definitely is an integral part and preinstalled on that experience. So we're very excited about it, and I'll let Barry comment on the financial impact.

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

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We actually appreciate the opportunity to comment, no comment.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Doug Anmuth at JPMorgan.

Douglas T. Anmuth
Analyst, JPMorgan Securities LLC

Q

Can you talk about the new ad-supported user interface and added functionality you rolled out in the ad-supported version earlier this year? Is it already having a positive impact on engagement and retention? And what are you seeing in terms of conversion rates to Premium subs?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

I think it's really too early yet to say. The early signs are encouraging, but there is still lots of noise in the data. The noise in the data mostly relates to the fact that this is being rolled out in many different geographies with slightly different user characteristics depending on where you are in the world. But so far, the early test results that we did prior to launching this seems consistent with the results that we are seeing out in the wild.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Eric Sheridan at UBS.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

How should we think about the e-commerce opportunity, ticketing and merchandising et cetera on the platform in the coming years? What are some of the friction points that Spotify, their product partners, et cetera that Spotify needs to solve to achieve their goals?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, I think if we kind of up-level it and not just talk about the sort of specifics of merchandising and ticketing and instead talk about the fact that at Spotify our goal is to connect artists and fans. And as part of that for many, many artists, they have a huge audience on Spotify and we have a better ability, we believe over time, to discern who are real fans versus not. And as part of that you could expect us to enable opportunities as part of our marketplace strategy to create more opportunities for creators to up-sell those super-fans various products.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Jessica Reif from Bank of America.

Jessica Jean Reif-Cohen
Analyst, Bank of America Merrill Lynch

Q

Can you talk about traction in some of your newer larger markets like Japan? When do you expect to launch in India and what are the main challenges in launching?

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Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, we don't break out performance on any specific market, but so far the results in Japan has been encouraging and we keep on investing in that market and believe over time that it will be a very significant market to us.

As it relates to market launches, there is a number of different factors that we look at both as we evaluate launching new markets, but then coupled with of course the industry. India specifically is a very fragmented marketplace with lots of different local labels, lots of different local publishers. Whenever we deal with licensing situations, it's very hard for us to predict accurate timelines on the basis of multi, multi-partnerships, just the sheer scale of number of partnerships makes it very hard to predict that. But there is nothing that we see that prevents us from launching in India.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question from Nick Delfas at Redburn.

Spyros Nicholas Delfas
Analyst, Redburn (Europe) Ltd.

Q

Do you have any plan to charge artists for data or for promoting work on the paid service in any way?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Our strategy in our marketplace side of the business is the same as we have on the rest of the Spotify, which is it's a freemium business, meaning there will be certain amount of products which artists and labels can get for free and there are others which we'll charge money for. So that's an evolving strategy. When it comes to our product portfolio, data specifically is very unlikely to be one of those things that we'll charge for.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question from Lloyd Walmsley at Deutsche Bank.

Lloyd Walmsley
Analyst, Deutsche Bank Securities, Inc.

Q

Should we expect the path for gross margin improvement towards your long-term targets to be fairly linear or should we expect it to be a bit volatile where some year's gains are more substantial than in other years? How should we think about the path for the near term?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, I certainly would expect, and we have said this before, that the gross margin, the vast majority of all the gross margin improvements will come from our marketplace strategy, so as we look at the marketplace strategy over time, it is not a function of what previously used to happen which was one or two negotiated deals, but instead more likely lots and lots of deals that will happen on individual as artists and labels are purchasing more services.

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Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

And I would add that if over time, let's say, podcast becomes a significant component of the business, that will have its own margin structure separate from music biz and a revenue stream different from the music biz. Today, we observe advertisements on subscription as well as ad-supported businesses and we expect that to also be true on our platform as well. And that business will grow gradually over time and the effects of that margin structure will grow gradually over time.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Maria Ripps at Canaccord.

Maria Ripps
Analyst, Canaccord Genuity, Inc.

Q

With the Music Modernization Act signed into law last month, what are the incremental costs for Spotify? Is there an impact on your licensing fees? Could you give us some color on any incremental costs related to creating and maintaining your licensing database?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

We mostly think there is goodness for us in the passage of the act. It makes it easier for us to know who the rights holders are and how to pay them. So I think of it over the long term as a margin-enhancing opportunity, not a net cost.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question from Amy Yong at Macquarie.

Amy Yong
Analyst, Macquarie Capital (USA), Inc.

Q

Can help us through some of the major factors in your current label negotiations? What's different this time around? Are the labels looking for more data?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

I can't comment on the specific of any ongoing negotiation with any party. But what I can say is that the primary focus for us is our strategy. which is around the two-sided marketplace and that's what we're working with all of our partners on.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question comes from Alan Gould at Loop Capital.

Alan Gould
Analyst, Loop Capital Markets LLC

Q

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How does the competitive landscape change with Sirius planning to acquire Pandora and Apple potentially striking a deal with iHeartMedia?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Again, if we take two steps back and look at the landscape in the earlier commentary I made, we believe that the vast majority of minutes that are on radio today haven't yet moved online. It's quite natural that we are not going to be the only player, the ones who get those minutes as it comes online, but we feel really good about our strategy which is ubiquity, personalization and superior user experience and that's what we are continuing to invest in.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question from Thomas Singlehurst at Citi.

Thomas A. Singlehurst
Analyst, Citigroup Global Markets Ltd.

Q

There's been some speculation you might be a potential buyer of a stake in UMG now that the asset is formally up for sale. Can you talk about the pros and cons of potentially being an owner of recorded music business and all that might entail?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

I really can't make any comments on any deal negotiations at this point.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question from Matt Harrigan at Buckingham.

Matthew Harrigan
Analyst, The Buckingham Research Group, Inc.

Q

Given the higher than anticipated growth in smart speakers related to expectations a year ago and with about 30% of new smart speaker users taking a streaming service, did you feel that you did a more accurate job of incorporating this into your projections than outside analysts? Otherwise you presumably would have been – you would have beat subscriber numbers unless there were a shortfall in other areas? Or are smart speakers vastly less important than Student and Family plan? Thanks.

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, from what we are seeing in our data, it's definitely a rising segment and it's a very fast growing segment for us. But that said, as the scale goes, all of our other product lines are vastly larger.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

Next question from Barton Crockett at B. Riley.

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Barton Crockett
Analyst, B. Riley FBR, Inc.

Q

Can you give us a sense of the size of the lease expense that will be eliminated from the transition to new accounting standard next year and the size of lease obligations that will move onto the balance sheet?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

The contingent liability footnote will give you a sense of the size of the obligations that will move on to the balance sheet not anticipating a reduction of expense, just gets carved up into different categories, depreciation and interest expense.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

A follow-up question from Heath Terry at Goldman.

Heath Terry
Analyst, Goldman Sachs & Co. LLC

Q

There seems to be a disconnect between the way the press reports your ambitions for direct distribution relationships with artists and the way you talk about those plans. Can you clarify what you've done to date in direct distribution relationships or direct music content acquisition and what your strategy is for leveraging direct distribution or licensing relationships in music?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, I think, again to kind of take two steps back, I made some commentary around this on the last earnings call as well, but we don't view our strategy to be in opposition of any of our partners. In fact, we view the strategy really to be enhancing to our partners as well. But if you think about it from the standpoint of the investments, the labels, publishers and everyone else makes in the ecosystem today, it's quite substantial in order to bring a new artist to the masses. So there's an enormous amount of marketing and promotion cost associated with that.

One way you should view our marketplace strategy is that we want to make that a lot more efficient, and if we can bring down the cost for that we should see a lot more artist being successful and we should see a lot more labels be successful in the marketplace as well. But we don't view this as Spotify has to win labels lose, but instead as a win-win and I think that's the fundamental difference.

And then obviously the point being also as I think everyone kind of looks at what has previously happened in the industry and kind of look at the – the Netflix being the prime example here, but I think as I've said many times before also publicly, Netflix on the surface is a very similar business to ours, but underneath that surface it's very, very different in the case of our marketplace strategy and their original content strategy.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

We have a follow-up question from Rich Greenfield at BTIG.

Richard Greenfield
Analyst, BTIG LLC

Q

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In the U.S., Spotify's podcast market share appears to be high single digits, however overseas you are the dominant player in many markets. How do you close the U.S. gap?

Daniel Ek
Co-Founder, Chairman & Chief Executive Officer, Spotify Technology SA

A

Well, we are continuing to invest in our user experience and are continuously shipping new updates to our products. Among them, things that you should expect of a great podcast player like the ability to fast-forward, the ability to speed up the contents and discovery of course being the prime among them, and we believe that there is still an enormous amount of potential in improving the user experience, and as we do that, we have a great opportunity of growing our share in podcast.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

A

This must be our last question. We're coming up on half an hour. The question is from Greyson Clymer from Melvin Capital.

Greyson Clymer
Analyst, Melvin Capital Management LP

Q

Can you provide some clarity on why Q4 subscriber growth was lower to the top-end versus prior expectations? Any clarity on gross adds, net adds or churn trajectory would be helpful?

Barry W. McCarthy
Chief Financial Officer, Spotify Technology SA

A

We basically just reverted back to guidance we had previously. If we had left that alone, there would've been no change. So my observation was as Street was starting to run to the high end of the range of our guidance and our objective is to land at about the 70th percentile range of the guidance we give. So I wanted to avoid us being in a situation where we'd exceeded our own performance expectations, but we had underperformed the Street's expectations in Q4.

Paul Vogel
Vice President, Head of Finance/FP&A and Investor Relations, Spotify Technology SA

Great. And with that we will close the call. If anyone has any follow-up questions, please e-mail to IR inbox at ir@spotify.com, and we look forward to speaking with you guys next quarter. Thanks, everyone.

Operator: This concludes today's conference call. You may now disconnect.

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CO Rem. Ex. J

May 2, 2018

Dear Shareholders,

Today Spotify is reporting results for the first fiscal quarter of 2018 ending March 31, 2018.

We finished the quarter with 170 million Monthly Active Users ("MAU") and 75 million Premium Subscribers, up 30% and 45%, respectively, Y/Y.

Total Revenue was €1,139 million growing 26% Y/Y, and 37% Y/Y after adjusting for the negative impact from changes in foreign exchange rates[1].

Gross Margin was 24.9% in Q1, above the high end of our guidance range of 23-24%. Excluding adjustments to prior period estimates primarily related to changes in rights holder liabilities booked in the quarter, we would have finished at the high end of our stated range. These adjustments accounted for approximately 124 basis points of Gross Margin in Q1.

Our Operating Loss was €41 million or approximately 4% of Total Revenue. This was also better than our guidance for the quarter, but was largely due to the flow through from the Gross Profit outperformance mentioned above. Operating expenses were in line with our expectations. Net cash flows from operating activities were €84 million, and Free Cash Flow was €74 million[1].

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q1 2017**	**Q4 2017**	**Q1 2018**	**Y/Y**	**Q/Q**
Total MAUs	131	157	170	30%	8%
Premium Subscribers	52	71	75	45%	7%
Ad-Supported MAUs	82	90	99	21%	9%
FINANCIALS (€M)					
Premium	828	1,018	1,037	25%	2%
Ad-Supported	74	130	102	38%	(22%)
Total Revenue	**902**	**1,149**	**1,139**	**26%**	**(1%)**
Gross Profit	105	282	283	169%	1%
Gross Margin	**11.7%**	**24.5%**	**24.9%**	**--**	**--**
Operating Loss	**(139)**	**(87)**	**(41)**	**71%**	**53%**
Operating Margin	(15.4%)	(7.6%)	(3.6%)	--	--
Net cash flows from operating activities	93	95	84	(10%)	(12%)
Free Cash Flow[1]	**64**	**75**	**74**	**16%**	**(1%)**

[1] Free Cash Flow and Revenue excluding foreign exchange effect are non-IFRS measures. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

FIRST QUARTER HIGHLIGHTS & RECENT DEVELOPMENTS

Direct Listing

On April 3, the ordinary shares of Spotify were listed for trading on the New York Stock Exchange. This is our first interim report as a public company. Investor information can be found on our IR website (investors.spotify.com).

Personalized Discovery: All-New Free Tier

On April 24, we officially unveiled a new Ad-Supported experience on Spotify. The updated user experience provides greater consumer control and an increased focus on curation and personalization. Ad-Supported users can now listen to any track in their top 15 Spotify curated playlists completely on-demand. Each user's on-demand experience will be completely based on their individual music consumption and preferences they list upon sign up. Additionally, we introduced Data Saver, a simple optimization switch users can activate so that less mobile data is used while streaming music.

Expanding Hulu Bundle

Following the success of the Hulu/Spotify Premium for Student bundle which launched in September 2017, we expanded that program in early April 2018 to offer a similar deal to our Standard Plan subscribers. Existing subscribers are eligible to upgrade to the $12.99 per month plan today, and the plan will be made available to new subscribers later this summer.

New Market Launches

On March 13, we launched service in four new markets: Israel, Romania, South Africa, and Vietnam. This brought our total footprint to 65 countries and territories, and marked our first entry into the African continent.

Cadillac Partnership

At the end of March, we announced an integration with Cadillac to provide drivers with a seamless listening experience akin to using the radio from the moment they enter their car. The vehicle connects to Spotify itself using a 4G LTE connection without the need to use your phone, cables, or a Bluetooth connection. All of the artists, albums, and personalized playlists you love are integrated into the car's infotainment system—you can even make Spotify playlists into presets the same way you would an FM radio station. Plus, the app is designed to deliver personalized recommendations specifically geared toward the drive.

Podcasts

During Q1 we entered into partnerships with several major podcast networks and aggregators which more than doubled the size of our catalog compared to Q4 2017. Consumption hours are rapidly increasing, and we plan to continue our investment into podcasts and other forms of spoken word content.

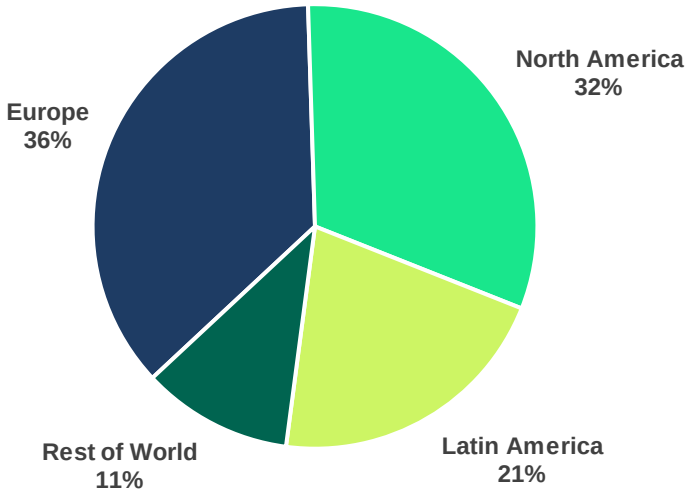
Growth of Global Recorded Music Market Accelerates
The International Federation of the Phonographic Industry ("IFPI") released its annual Global Music Report on April 24. IFPI reported that the global recorded music market was worth $17.3 billion in 2017, up 8.1% on 2016 marking the third consecutive year of growth for the industry. Much of that growth was again led by streaming where revenues grew 41.1% to $6.6 billion and now account for 38.4% of all recorded music revenue - the single biggest revenue source. Other key takeaways: paid subscription audio streams grew 45.5%, and there are now more than 176 million people paying for music subscriptions globally.

GRAMMY Best New Artist Party
This January, Spotify aligned with GRAMMY week to celebrate the second annual Best New Artist Party in New York City. All 5 featured nominees (Alessia Cara, Khalid, Julia Michaels, Lil Uzi Vert, and SZA) have been true partners to Spotify and have enjoyed growth and success in part attributable to the support we've provided both on and off the platform. In addition to the party, we also executed a large out-of-home campaign honoring the five nominees.

USER METRICS

We closed the quarter with 170 million monthly active users (up 30% Y/Y). Both Ad-Supported and Premium MAU were in line with our expectations and guidance range.

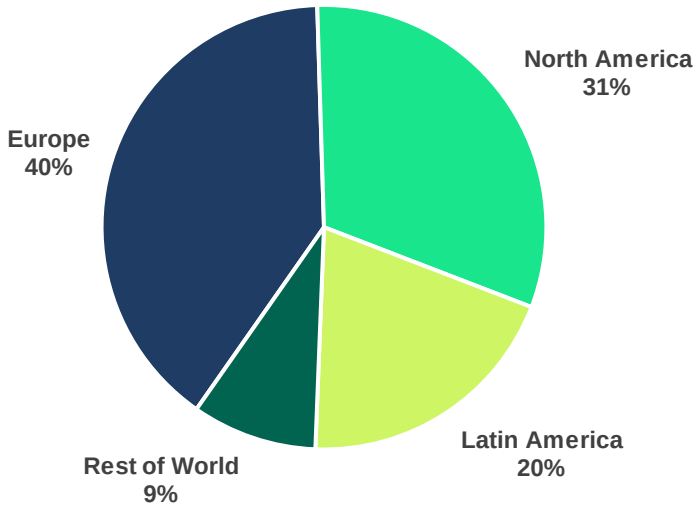
Total MAU by Region



Ad-Supported MAUs totaled 99 million at the end of Q1, up 21% Y/Y and 9% Q/Q. We continue to see strong growth in emerging markets, particularly Asia given our recent launches in Vietnam and Thailand, as well as increasing momentum in Japan.

Premium Subscribers grew to 75 million, up 45% Y/Y. Family Plan additions continued to be a source of strength. We also extended the length of our trial programs from 30 days to 60 days in certain key markets including the US, Australia, and Brazil, which we believe will have a positive effect on conversion and smooth some of the seasonal intake trends over time.

Subscribers by Region



Premium Churn was on trend in the quarter thanks to the continued popularity of the high retention Family and Student plans. While we don't plan to disclose Premium Churn on an ongoing basis, our average monthly Premium Churn rate for the quarter fell below 5%, a significant milestone. Greater penetration of our high retention products and a general maturation of our overall subscriber base should have a long-term downward impact on Premium Churn, mitigated somewhat by launches in new markets.

FINANCIAL METRICS

Revenue

Total revenue was €1,139 million this quarter, increasing 26% Y/Y. Foreign exchange rate movement was a significant headwind this quarter. Excluding the negative impact from foreign exchange rates, growth in revenue would have been 37% Y/Y.

Premium revenue was €1,037 million in Q1, up 25% Y/Y. Foreign exchange rates had a meaningful impact as Premium revenue would have been up 36% Y/Y if the negative impact were excluded. Average revenue per user ("ARPU") was €4.72 in Q1, down 14% Y/Y. Growth in Family and Student plans continues to weigh on ARPU, as does the shift in market mix as we grow faster in relatively lower ARPU geographies, like Latin America, and launch new markets. Changes in foreign exchange rates also contributed to the decline in ARPU. Excluding the impact of foreign exchange rates, ARPU would have been down 6% Y/Y.

Ad-Supported revenue was €102 million in Q1, up 38% Y/Y. Foreign exchange rates also had a substantial impact on advertising revenues due to the mix of US dollar denominated revenue. Adjusting for the impact of foreign exchange rates, Ad-Supported revenue would have grown 55% Y/Y.

The majority of our Ad-Supported revenue continues to be driven through our Direct channel, but growth in Programmatic continues to outperform our expectations nearly doubling Y/Y.

Ad spending continues to grow faster on our mobile platform, which comprises a majority of ad revenue. From a product perspective, video is our fastest growing source of revenue, while audio remains our largest source of revenue and continues to experience solid growth.

We launched a beta version of our self-serve advertising platform (Ad Studio) late last year. Hundreds of advertisers have successfully launched campaigns through the platform, and thousands more have signed up requesting access. While still small, early results have been encouraging, and we expect self-serve to become a significant portion of Ad-Supported revenue.

Gross Margin

Gross margin was 24.9% in Q1, up from 24.5% in Q4 and 11.7% in Q1 2017. We outperformed the high end of our guidance range primarily due to changes in prior period estimates for rights holder liabilities. These adjustments accounted for a gain of 124 bps in the quarter. We typically see a seasonal decline in gross margins of our business in Q1 and Q3 resulting from the costs of promotional campaigns we launch in Q2 and Q4 of each calendar year during which we typically experience fast subscriber growth. We expect Gross Margin to normalize to historical seasonal patterns for the remainder of the year.

Operating Expenses / Income (Loss)

Operating expenses totaled €324 million this quarter. As a percentage of revenue, operating expenses fell 140 bps year over year.

Total Operating Loss was €41 million. Operating Margin of 3.6% was an improvement of 1,180 bps Y/Y and 400 bps Q/Q.

As of March 31, we had 3,813 full-time employees and contractors globally. Research & Development made up the greatest share of hiring this quarter, accounting for almost half of the added headcount.

Free Cash Flow

We generated €84 million in Net cash flows from operating activities, and €74 million in Free Cash Flow in the first quarter. As we spoke about at our Investor Day on March 15, we have positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow into the

near future excluding the impact of capital expenditures associated with the build out of new and existing offices in New York, London, Los Angeles, Stockholm, and Boston among others.

At the end of the quarter, we held €1.6 billion in cash and cash equivalents, restricted cash, and short-term investments.

OUTLOOK

These forward-looking statements reflect Spotify's expectations as of May 2, 2018 and are subject to substantial uncertainty. For the second quarter, we are expecting:

- **Total Monthly Active Users ("MAU")**: 175-180 million, up 28-32% Y/Y
- **Total Premium Subscribers:** 79-83 million, up 34-41% Y/Y
- **Total Revenue:** €1.1-€1.3 billion, up 10-29% Y/Y. This includes a negative impact of approximately €95 million from foreign exchange rates; excluding this impact, up 20-38% Y/Y
- **Gross Margin:** 24-26%
- **Operating loss:** €60-€140 million. This includes expenses related to the direct listing of €30-€35 million

Our expectations for the Full Year 2018 are unchanged. They are:

- **Total Monthly Active Users ("MAU")**: 198-208 million, up 26-32% Y/Y
- **Total Premium Subscribers:** 92-96 million, up 30-36% Y/Y
- **Total Revenue:** €4.9-€5.3 billion, up 20-30% Y/Y. This includes a negative impact of approximately €280 million from foreign exchange rates; excluding this impact, up 26-37% Y/Y
- **Gross Margin:** 23-25%
- **Operating loss:** €230-€330 million

EARNINGS QUESTION & ANSWER SESSION

The Company will be hosting a live question and answer session starting at 5 p.m. ET today on investors.spotify.com. Daniel Ek, our Co-Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and through the live chat window available through the webcast. Participants may also join using the following listen-only conference line:

Participant Toll Free Dial-In Number: (866) 393-4306
Participant International Dial-In Number: (734) 385-2616
Conference ID 6066125

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Public Relations:
Graham James
press_internal@spotify.com

Use of Non IFRS Measures

This shareholder letter includes references to the non-IFRS financial measures of EBITDA and Free Cash Flow. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, make investments, and for certain other activities that excludes certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. This shareholder letter also includes references to the non-IFRS financial measures of Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS.

Forward Looking Statements

We would like to caution you that this letter to shareholders contains “forward-looking statements” as defined in Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with the safe harbor provisions. Such forward-looking statements involve significant risks, uncertainties and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections, including but not limited to the following known material factors: our ability to attract prospective customers and to retain existing customers; our dependence upon third-party licenses for sound recordings and musical compositions; our ability to comply with the many complex license agreements to which we are a party; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; risk associated with unauthorized access of our software and services and manipulation of stream counts and customer accounts; assertions by third parties of infringement or other violations by us of their intellectual property rights; risk associated with our substantial indebtedness; risks related to our status as a foreign private issuer; dilution resulting from additional share issuances; and the concentration of voting power among our founders who have and will continue to have substantial control over our business; tax-related risks; unanticipated changes relating to competitive factors in our industry; ability to hire and retain key personnel; changes in legislation or governmental regulations affecting us; international, national or local economic, social or political conditions; conditions in the credit markets; risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and such other risks as set forth in our filings with the United States Securities and Exchange Commission.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except to the extent required by law.

Interim condensed consolidated statement of operations

(Unaudited)

(in € millions, except share and per share data)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Revenue	1,139	1,149	902
Cost of revenue	856	867	797
Gross profit	**283**	**282**	**105**
Research and development	115	123	80
Sales and marketing	138	173	110
General and administrative	71	73	54
	324	**369**	**244**
Operating loss	**(41)**	**(87)**	**(139)**
Finance income	15	36	27
Finance costs	(154)	(545)	(62)
Share in earnings of associate	—	—	2
Finance income/(costs) - net	**(139)**	**(509)**	**(33)**
Loss before tax	**(180)**	**(596)**	**(172)**
Income tax (benefit) expense	(11)	—	1
Net loss attributable to owners of the parent	**(169)**	**(596)**	**(173)**
Net loss per share attributable to owners of the parent			
Basic and diluted	(1.01)	(3.87)	(1.15)
Weighted-average ordinary shares outstanding			
Basic and diluted	167,778,952	154,126,524	150,149,327

Interim condensed consolidated statement of financial position

(in € millions)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Non-current assets		
Property and equipment	68	73
Intangible assets including goodwill	161	162
Investment in associate	1	1
Long term investments	968	910
Restricted cash	56	54
Deferred tax assets	10	9
	1,264	**1,209**
Current assets		
Trade and other receivables	322	360
Income tax receivable	1	—
Short term investments	843	1,032
Cash and cash equivalents	733	477
Other current assets	39	29
	1,938	**1,898**
Total assets	**3,202**	**3,107**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	2,531	2,488
Other reserves	226	177
Accumulated deficit	(2,596)	(2,427)
Equity attributable to owners of parent	**161**	**238**
Non-current liabilities		
Convertible notes	1,022	944
Accrued expenses and other liabilities	61	56
Provisions	7	6
Deferred tax liabilities	3	3
	1,093	**1,009**
Current liabilities		
Trade and other payables	360	341
Income tax payable	4	9
Deferred revenue	223	216
Accrued expenses and other liabilities	889	881
Provisions	53	59
Derivative liabilities	419	354
	1,948	**1,860**
Total liabilities	**3,041**	**2,869**
Total equity and liabilities	**3,202**	**3,107**

Interim condensed consolidated statement of cash flows

(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Operating activities			
Net loss	(169)	(596)	(173)
Adjustments to reconcile net loss to net cash flows			
Depreciation of property and equipment	9	11	12
Amortization of intangible assets	2	2	2
Share-based payments expense	18	14	14
Impairment loss on trade receivables	3	(1)	—
(Gain)/loss on disposal of equipment	(1)	1	—
Finance income	(15)	(36)	(27)
Finance costs	154	545	62
Income tax (benefit) expense	(11)	—	1
Share in earnings of associate	—	—	(2)
Net foreign exchange gains	(1)	(4)	—
Changes in working capital:			
Decrease/(increase) in trade receivables and other assets	15	(46)	(40)
Increase in trade and other liabilities	70	195	186
Increase in deferred revenue	9	43	9
(Decrease)/increase in provisions	(3)	(39)	44
Interest received	10	6	5
Net income tax paid	(6)	—	—
Net cash flows from operating activities	**84**	**95**	**93**
Investing activities			
Business combinations, net of cash acquired	—	(11)	(23)
Purchases of property and equipment	(6)	(21)	(1)
Proceeds from sales of equipment	1	—	—
Purchases of intangibles	(2)	(3)	(2)
Purchases of short term investments	(271)	(482)	(357)
Sales and maturities of short term investments	430	237	286
Transaction fees for long term investment	(9)	—	—
Change in restricted cash	(4)	1	(28)
Net cash flows used in investing activities	**139**	**(279)**	**(125)**
Financing activities			
Finance lease payments	—	—	(1)
Proceeds from issuance of ordinary shares	4	—	—
Proceeds from exercise of share options	39	7	17
Net cash flow from financing activities	**43**	**7**	**16**
Net increase/(decrease) in cash and cash equivalents	**266**	**(177)**	**(16)**
Cash and cash equivalents at beginning of the period	477	668	755
Net exchange losses on cash and cash equivalents	(10)	(14)	(4)
Cash and cash equivalents at December 31	**733**	**477**	**735**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended	
	March 31, 2018	March 31, 2017
IFRS revenue	1,139	902
Foreign exchange effect on 2018 revenue using 2017 rates	100	
Revenue excluding foreign exchange effect - Ad-Supported	1,239	
IFRS revenue year-over-year change %	26%	
Revenue excluding foreign exchange effect year-over-year change %	37%	
IFRS Premium revenue	1,037	828
Foreign exchange effect on 2018 Premium revenue using 2017 rates	87	
Premium revenue excluding foreign exchange effect	1,124	
IFRS Premium revenue year-over-year change %	25%	
Premium revenue excluding foreign exchange effect year-over-year change %	36%	
IFRS Ad-Supported revenue	102	74
Foreign exchange effect on 2018 Ad-Supported revenue using 2017 rates	13	
Ad-Supported revenue excluding foreign exchange effect	115	
IFRS Ad-Supported revenue year-over-year change %	38%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	55%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Net loss attributable to owners of the parent	(169)	(596)	(173)
Finance (income)/costs - net	139	509	33
Income tax (benefit) expense	(11)	—	1
Depreciation and amortization	11	13	14
EBITDA	**(30)**	**(74)**	**(125)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Net cash flows from operating activities	84	95	93
Capital expenditures	(6)	(21)	(1)
Change in restricted cash	(4)	1	(28)
Free Cash Flow	**74**	**75**	**64**

July 26, 2018

Dear Shareholders,

Today Spotify is reporting results for Q2 2018. The quarter was largely in line with our expectations, with some metrics performing at the high end of our guidance range.

We finished the quarter with 180 million Monthly Active Users ("MAU") and 83 million Premium Subscribers, up 30% and 40% respectively, Y/Y.[1]

Total Revenue was €1,273 million, up 26% Y/Y and 34% Y/Y after adjusting for the negative impact from changes in foreign exchange rates.[2]

Gross Margin of 25.8% was at the high end of our guidance range of 24-26%.

Our Operating Loss was €90 million or approximately 7% of Total Revenue. This includes a €30 million cash expense related to our direct listing on the NYSE in April ("Direct Listing") and €32 million of accrued social costs for options and RSUs[3] (€24 million more than anticipated in our Q2 guidance as a result of the strong stock performance in the quarter). Excluding increased accrued social costs for options and RSUs, Operating Loss would have been at the low end of our guidance. Net cash flows from operating activities were €30 million, and Free Cash Flow was €18 million.[2]

SUMMARY USER AND FINANCIAL METRICS

				% Change[4]	
USERS (M)	**Q2 2017[1]**	**Q1 2018[1]**	**Q2 2018**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	138	173	180	30%	4%
Premium Subscribers	59	75	83	40%	10%
Ad-Supported MAUs	83	102	101	23%	(0%)
FINANCIALS (€M)					
Premium	904	1,037	1,150	27%	11%
Ad-Supported	103	102	123	20%	21%
Total Revenue	**1,007**	**1,139**	**1,273**	**26%**	**12%**
Gross Profit	232	283	329	42%	16%
Gross Margin	**23.0%**	**24.9%**	**25.8%**	**--**	**--**
Operating Loss	**(79)**	**(41)**	**(90)**	**(14%)**	**(121%)**
Operating Margin	(7.8%)	(3.6%)	(7.1%)	--	--
Net cash flows from operating activities	72	84	30	(58%)	(64%)
Free Cash Flow[2]	**59**	**74**	**18**	**(69%)**	**(76%)**

[1] Historical Total and Ad-Supported MAU figures adjusted from previously reported amounts. See "Updating Our Key User Metrics Policy" for additional information.

[2] Free Cash Flow and Revenue excluding foreign exchange effect are non-IFRS measures. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

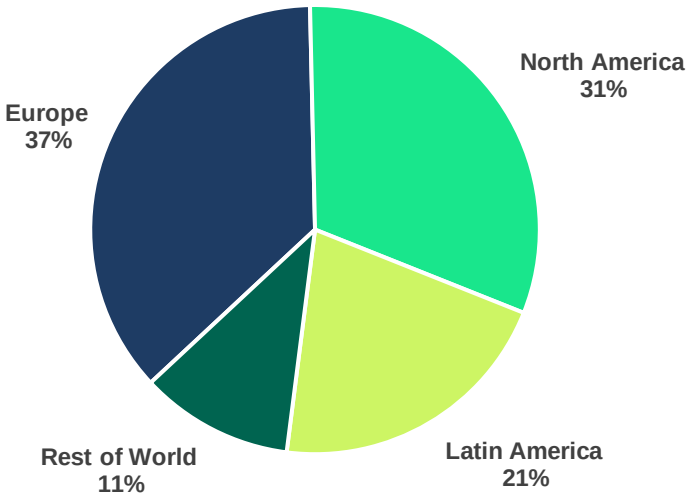
[3] Payroll taxes associated with employee salaries and benefits, including stock-based compensation that we are subject to in various countries in which we operate.

[4] Based on actual figures and not rounded sums.

MONTHLY ACTIVE USERS

MAUs grew 30% Y/Y to 180 million at the end of Q2. Growth in our emerging regions of Latin America and Rest of World continues to outpace growth in our more established markets.

Total MAUs by Region

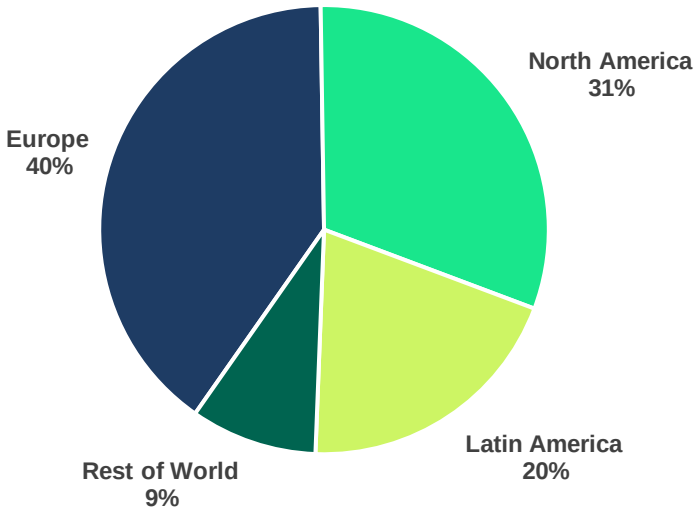


Ad-Supported MAUs totaled 101 million at the end of Q2, up 23% Y/Y. Earlier this year we began rolling out a new user interface for our Ad-Supported tier of service, the first major revision since our mobile product was introduced in 2014. We expect this new user interface to drive improvements in engagement, retention, and conversion.

PREMIUM SUBSCRIBERS

Premium Subscribers grew to 83 million, up 40% Y/Y. Our mid-year campaign performed well and was a significant portion of our subscriber intake in the quarter. Family Plan continues to be a primary driver of gross adds and lower churn due to strong retention. We also extended our offer of a Spotify + Hulu bundle to Standard $9.99 Premium subscribers in the US, following the early success of the Spotify Student + Hulu bundle launched last fall.

Subscribers by Region

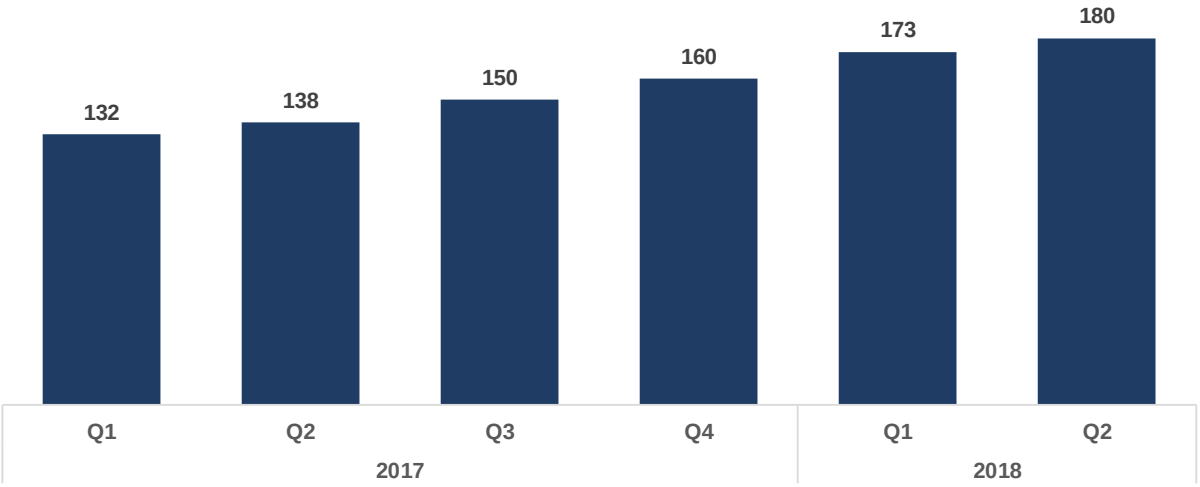


UPDATING OUR KEY USER METRICS POLICY

We continually seek to improve estimates of our user base, and we regularly review our policies and processes for calculating user metrics to improve their accuracy. In Q2, we revised our policy to better align with current practices of other consumer-facing internet companies. In our Registration Statement on Form F-1 filed in March and our Q1 earnings release, we excluded a number of users that may have employed methods to limit or otherwise avoid being served advertisements (although our financials captured all the costs of streaming content to these users). As such, the MAUs we reported did not reflect the full number of users consuming content through our service.

Our Q2 Total MAU figure of 180 million is inclusive of these users that may have employed methods to limit or otherwise avoid being served advertisements. For comparability we have adjusted our prior period figures to align with this revised methodology. We estimate that users exhibiting this behavior constitute less than 5% of our total reported Ad-Supported MAU figure (less than 3% of Total MAUs).

Total MAUs[1]



1. Q1'17 - Q1'18 adjusted from previously reported figures as described above

Separately, we continue to work to identify and remove users from our reported metrics that we consider to be "fake" users based on various criteria. This includes, but is not limited to, bots and other users who aim to manipulate stream counts for purposes of royalty calculations. Such users are removed from our metrics in a timely fashion once they are discovered. However, some such users may remain in our reported metrics because of the limitations of our ability to identify their accounts.

FINANCIAL METRICS

Revenue

Total revenue was €1,273 million this quarter, up 26% Y/Y. Foreign exchange rate movement continued to be a significant headwind this quarter. Excluding the negative impact from foreign exchange rates, growth in revenue would have been 34% Y/Y.

Premium revenue was €1,150 million in Q2, up 27% Y/Y. Foreign exchange rates had a meaningful impact, as Premium revenue would have been up 35% Y/Y if the negative impact were excluded.

Average revenue per user ("ARPU") was €4.89 in Q2, down 12% Y/Y and up 4% Q/Q. The increase from Q1 is largely due to the timing of our bi-annual campaigns which create a seasonal impact to both revenue and gross margin. We expect this seasonality to continue. Growth in Family and Student plans continues to weigh on ARPU, as does the shift in market mix as we grow faster in relatively lower ARPU geographies like Latin America, Southeast Asia, and other newly launched markets. Changes in foreign exchange rates also contributed to the Y/Y decline in ARPU. Excluding the impact of foreign exchange rates, ARPU would have been down 6% Y/Y.

Ad-Supported revenue was €123 million in Q2, up 20% Y/Y. Foreign exchange rates also had a substantial impact on advertising revenues due to the mix of US dollar denominated revenue. Adjusting for the impact of foreign exchange rates, Ad-Supported revenue would have grown 28% Y/Y.

During Q2 we implemented a new data policy which slowed our revenue growth. We course corrected early in Q3 and are seeing a recovery in the business. We did see some GDPR disruption across our European markets during Q2 but seem to be largely past that now. We are, and will remain, GDPR compliant thanks to a terrific cross-functional effort.

The majority of our Ad-Supported revenue continues to be driven through our Direct channel, but our Programmatic & Ad Studio products are growing faster and now account for more than 20% of the total. In Q2 we launched our new automated self-serve platform, Ad Studio, in several more countries. We're now live in the US, UK, Canada, and Australia. Over time, we expect our Programmatic and self-serve products to become a significant portion of Ad-Supported revenue.

Ad spending continues to grow fast on our mobile platform, which comprises the majority of Ad revenue. From a product perspective, video is our fastest growing source of revenue, while audio remains our largest source of revenue and continues to experience solid growth.

At the end of the quarter we unveiled Active Media in Australia, which gives users the choice to hear, watch, or skip audio and video ads they are served. We believe this system will better enable us to understand what drives intent and engagement, and ultimately allow us to personalize the ad experience in the same way as our most popular playlists. With good execution we're betting that pay for performance will better monetize our free user base than our current CPM-based pricing model.

Gross Margin

Gross Margin was 25.8% in Q2, the high end of our guidance range, up from 24.9% in Q1 and 23.0% in Q2 2017. As a reminder, Gross Margins tend to be lower in Q1 and Q3, resulting from the costs of promotional campaigns we launch in Q2 and Q4 of each calendar year, during which we typically experience faster subscriber growth. Q1 2018 margins included a 124 basis point gain from adjustments to prior period estimates related to changes in rightsholder liabilities. While there was a similar adjustment in Q2, margins this quarter were much more in line with the usual seasonality. We expect Gross Margin to continue to demonstrate these seasonal patterns throughout the remainder of the year.

Premium Gross Margin was 26.9% in Q2, up from 26.0% in Q1 and 24.1% in Q2 2017. Ad-Supported Gross Margin was 16.3% in Q2, up from 12.7% in Q1 and 13.6% in Q2 2017. Ad-Supported Gross Margins are relatively strong in our developed markets and relatively weak in our emerging markets. As the emerging markets grow, margins should too.

Over the long run our goal is to manage the consolidated business to 30%+ Gross Margins. We outlined our long-term margin goals for the business at our Investor Day on March 15, 2018. Those goals are informed by a vision for building a two-sided marketplace where millions of artists can reach millions of fans. To succeed, we said we need to help more artists connect with more fans. The path to success involves building services and tools for labels and artists focused on promotion, marketing, and career management. This will be a multi-year journey, but we're making exciting progress. In the last quarter we have grown the number of unique artists listened to on our platform by 5%. Additionally, Spotify for Artists, our platform where artists can manage their profiles, is now used by 200k artists monthly. In its first 9 months Monthly Active Artists grew by 100k and doubled in the next 6 months. Expect regular updates on our progress over time.

The benchmarks for success will include (1) the number of creators on our platform, (2) the number of creators using our promotion, marketing, and career management tools, and (3) the number of artists and labels paying us to use our tools and services.

Operating Expenses / Income (Loss)

Operating expenses totaled €419 million this quarter, and total Operating Loss was €90 million. Operating Margin of (7.1%) improved 70 bps Y/Y.

We expensed €30 million in Q2 related to our Direct Listing. The Operating Loss included a €32 million accrued expense related to increased social tax on stock option grants and RSUs, primarily in Sweden, a result of the strong stock performance in the quarter. This was €24 million higher than our guidance forecast. Excluding the non-recurring Direct Listing fee would have yielded an Operating Loss of €60 million or (4.7%) as a percent of revenue, a 310 bps improvement Y/Y.

As of June 30, we had 3,969 full-time employees and contractors globally. Research & Development made up the greatest share of hiring this quarter, accounting for almost half of the added headcount.

Free Cash Flow

We generated €30 million in Net cash flows from operating activities and €18 million in Free Cash Flow in Q2, which includes the €30 million one-time expense related to our Direct Listing. We maintain positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow excluding the impact of capital expenditures associated with the build-out of new and existing offices in New York, London, Los Angeles, Stockholm, and Boston, among others. We anticipate these projects to cost more than €300 million over the next 12 to 18 months.

At the end of the quarter we held €1.7 billion in cash and cash equivalents, restricted cash, and short term investments.

OUTLOOK

These forward-looking statements reflect Spotify's expectations as of July 26, 2018 and are subject to substantial uncertainty. For the third quarter we are expecting:

- **Total Monthly Active Users ("MAU")**: 188-193 million, up 25-29% Y/Y
- **Total Premium Subscribers:** 85-88 million, up 36-43% Y/Y
- **Total Revenue:** €1.2-€1.4 billion, up 17-36% Y/Y. This includes a negative impact of approximately €30 million from foreign exchange rates; excluding this impact, up 20-38% Y/Y
- **Gross Margin:** 23.7-25.7%
- **Operating Loss:** €10-€90 million

Additionally, for the fourth quarter we are expecting:

- **Total Monthly Active Users ("MAU")**: 199-207 million, up 24-30% Y/Y
- **Total Premium Subscribers:** 93-97 million, up 30-37% Y/Y
- **Total Revenue:** €1.35-€1.55 billion, up 18-35% Y/Y. This includes a negative impact of approximately €20 million from foreign exchange rates; excluding this impact, up 20-37% Y/Y
- **Gross Margin:** 24.5-26.5%
- **Operating Loss:** €20-€100 million

TME INVESTMENT

Tencent Music Entertainment Group ("TME"), through its parent Tencent Holdings Limited, has announced its intention to list TME's shares on a recognized stock exchange in the United States through a registered public offering. We own TME shares. These are held in long term investments on our balance sheet. A TME IPO would trigger a fair market value adjustment to the carrying value of our investment recognized in other comprehensive income. The gain could be significant. The accounting treatment for such a gain could trigger a tax benefit large enough to generate positive Net Income for us in the quarter of the IPO. If such an outcome were to occur, it would be a one-time, non-recurring event. The following quarters we would expect the business to once again generate a Net Loss.

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Co-Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and through the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (866) 393-4306
Participant International Dial-In Number: (734) 385-2616
Conference ID 4567529

Contacts

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Public Relations:
Graham James
press_internal@spotify.com

Use of Non-IFRS Measures

This shareholder letter includes references to the non-IFRS financial measures of EBITDA and Free Cash Flow. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, make investments, and for certain other activities that excludes certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. This shareholder letter also includes references to the non-IFRS financial measures of Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS.

Forward Looking Statements

We would like to caution you that this letter to shareholders contains “forward-looking statements” as defined in Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with the safe harbor provisions. Such forward-looking statements involve significant risks, uncertainties and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections, including but not limited to the following known material factors: our ability to attract prospective customers and to retain existing customers; our dependence upon third-party licenses for sound recordings and musical compositions; our ability to comply with the many complex license agreements to which we are a party; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; risk associated with unauthorized access of our software and services and manipulation of stream counts and customer accounts; assertions by third parties of infringement or other violations by us of their intellectual property rights; risks related to our status as a foreign private issuer; dilution resulting from additional share issuances; and the concentration of voting power among our founders who have and will continue to have substantial control over our business; tax-related risks; unanticipated changes relating to competitive factors in our industry; ability to hire and retain key personnel; changes in legislation or governmental regulations affecting us; international, national or local economic, social or political conditions; conditions in the credit markets; risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and such other risks as set forth in our filings with the United States Securities and Exchange Commission.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except to the extent required by law.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue	1,273	1,139	1,007	2,412	1,909
Cost of revenue	944	856	775	1,800	1,572
Gross profit	**329**	**283**	**232**	**612**	**337**
Research and development	143	115	95	258	175
Sales and marketing	173	138	146	311	256
General and administrative	103	71	70	174	124
	419	**324**	**311**	**743**	**555**
Operating loss	**(90)**	**(41)**	**(79)**	**(131)**	**(218)**
Finance income	41	15	41	56	68
Finance costs	(343)	(154)	(148)	(497)	(210)
Share in earnings of associate	—	—	(1)	—	1
Finance income/(costs) - net	**(302)**	**(139)**	**(108)**	**(441)**	**(141)**
Loss before tax	**(392)**	**(180)**	**(187)**	**(572)**	**(359)**
Income tax expense/(benefit)	2	(11)	1	(9)	2
Net loss attributable to owners of the parent	**(394)**	**(169)**	**(188)**	**(563)**	**(361)**
Net loss per share attributable to owners of the parent					
Basic and diluted	(2.20)	(1.01)	(1.24)	(3.25)	(2.40)
Weighted-average ordinary shares outstanding					
Basic and diluted	179,077,124	167,778,952	151,069,953	173,459,249	150,612,183

Interim condensed consolidated statement of financial position
(in € millions)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Non-current assets		
Property and equipment	83	73
Intangible assets including goodwill	175	162
Investment in associate	1	1
Long term investments	968	910
Restricted cash and other non-current assets	65	54
Deferred tax assets	10	9
	1,302	**1,209**
Current assets		
Trade and other receivables	324	360
Income tax receivable	1	—
Short term investments	885	1,032
Cash and cash equivalents	810	477
Other current assets	38	29
	2,058	**1,898**
Total assets	**3,360**	**3,107**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	3,733	2,488
Other reserves	256	177
Accumulated deficit	(2,990)	(2,427)
Equity attributable to owners of parent	**999**	**238**
Non-current liabilities		
Convertible notes	—	944
Accrued expenses and other liabilities	71	56
Provisions	8	6
Deferred tax liabilities	2	3
	81	**1,009**
Current liabilities		
Trade and other payables	369	341
Income tax payable	4	9
Deferred revenue	234	216
Accrued expenses and other liabilities	991	881
Provisions	51	59
Derivative liabilities	631	354
	2,280	**1,860**
Total liabilities	**2,361**	**2,869**
Total equity and liabilities	**3,360**	**3,107**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Operating activities					
Net loss	(394)	(169)	(188)	(563)	(361)
Adjustments to reconcile net loss to net cash flows					
Depreciation of property and equipment	4	9	11	13	23
Amortization of intangible assets	2	2	1	4	3
Share-based payments expense	23	18	19	41	33
Finance income	(41)	(15)	(41)	(56)	(68)
Finance costs	343	154	148	497	210
Income tax expense/(benefit)	2	(11)	1	(9)	2
Share in earnings of associate	—	—	1	—	(1)
Other	(3)	1	3	(2)	3
Changes in working capital:					
Decrease/(increase) in trade receivables and other assets	12	15	13	27	(27)
Increase in trade and other liabilities	78	70	81	148	267
Increase in deferred revenue	7	9	15	16	24
(Decrease)/increase in provisions	(4)	(3)	2	(7)	46
Interest received	2	10	4	12	9
Net income tax (paid)/received	(1)	(6)	2	(7)	2
Net cash flows from operating activities	**30**	**84**	**72**	**114**	**165**
Investing activities					
Purchases of property and equipment	(5)	(6)	(5)	(11)	(6)
Purchases of short term investments	(444)	(271)	(310)	(715)	(667)
Sales and maturities of short term investments	451	430	300	881	586
Transaction fees for long term investment	—	(9)	—	(9)	—
Change in restricted cash	(7)	(4)	(8)	(11)	(36)
Other	(12)	(1)	(19)	(13)	(44)
Net cash flows (used in)/from investing activities	**(17)**	**139**	**(42)**	**122**	**(167)**
Financing activities					
Proceeds from issuance of ordinary shares	—	4	—	4	—
Proceeds from exercise of share options	57	39	3	96	20
Other	(2)	—	(1)	(2)	(2)
Net cash flow from financing activities	**55**	**43**	**2**	**98**	**18**
Net increase in cash and cash equivalents	**68**	**266**	**32**	**334**	**16**
Cash and cash equivalents at beginning of the period	733	477	735	477	755
Net exchange losses on cash and cash equivalents	9	(10)	(35)	(1)	(39)
Cash and cash equivalents at period end	**810**	**733**	**732**	**810**	**732**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
IFRS revenue	1,273	1,007	2,412	1,909
Foreign exchange effect on 2018 revenue using 2017 rates	76		176	
Revenue excluding foreign exchange effect	1,349		2,588	
IFRS revenue year-over-year change %	26%		26%	
Revenue excluding foreign exchange effect year-over-year change %	34%		36%	
IFRS Premium revenue	1,150	904	2,187	1,732
Foreign exchange effect on 2018 Premium revenue using 2017 rates	67		154	
Premium revenue excluding foreign exchange effect	1,217		2,341	
IFRS Premium revenue year-over-year change %	27%		26%	
Premium revenue excluding foreign exchange effect year-over-year change %	35%		35%	
IFRS Ad-Supported revenue	123	103	225	177
Foreign exchange effect on 2018 Ad-Supported revenue using 2017 rates	9		22	
Ad-Supported revenue excluding foreign exchange effect	132		247	
IFRS Ad-Supported revenue year-over-year change %	20%		27%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	28%		40%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net loss attributable to owners of the parent	(394)	(169)	(188)	(563)	(361)
Finance (income)/costs - net	302	139	108	441	141
Income tax expense/(benefit)	2	(11)	1	(9)	2
Depreciation and amortization	6	11	12	17	26
EBITDA	**(84)**	**(30)**	**(67)**	**(114)**	**(192)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net cash flows from operating activities	30	84	72	114	165
Capital expenditures	(5)	(6)	(5)	(11)	(6)
Change in restricted cash	(7)	(4)	(8)	(11)	(36)
Free Cash Flow	**18**	**74**	**59**	**92**	**123**

November 1, 2018

Dear Shareholders,

Today Spotify is reporting results for Q3 2018. The quarter was largely in line with our expectations and our guidance range, except that Operating Margin outperformed our forecast.

SUMMARY USER AND FINANCIAL METRICS

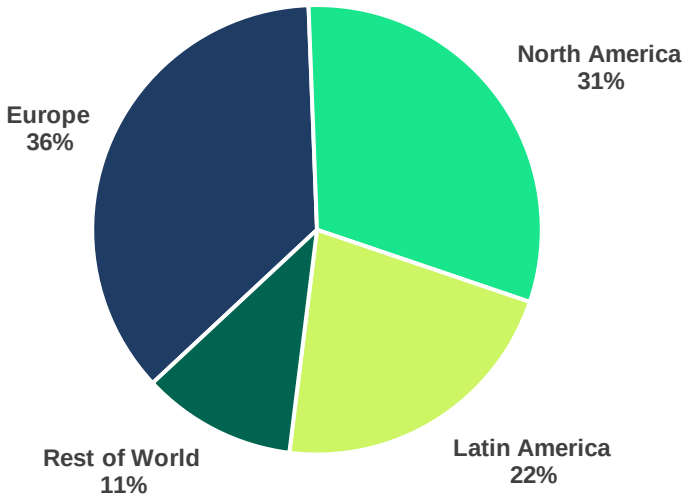
				% Change	
USERS (M)	**Q3 2017**	**Q2 2018**	**Q3 2018**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	150	180	191	28%	6%
Premium Subscribers	62	83	87	40%	5%
Ad-Supported MAUs	91	101	109	20%	8%
FINANCIALS (€M)					
Premium	923	1,150	1,210	31%	5%
Ad-Supported	109	123	142	30%	16%
Total Revenue	**1,032**	**1,273**	**1,352**	**31%**	**6%**
Gross Profit	230	329	342	49%	4%
Gross Margin	**22.3%**	**25.8%**	**25.3%**	**--**	**--**
Operating Loss	**(73)**	**(90)**	**(6)**	**(92%)**	**(93%)**
Operating Margin	(7.1%)	(7.1%)	(0.5%)	--	--
Net cash flows from operating activities	(81)	30	80	--	167%
Free Cash Flow[1]	**(89)**	**18**	**33**	**--**	**83%**

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

MONTHLY ACTIVE USERS

MAUs grew 28% Y/Y to 191 million at the end of Q3. Growth in our emerging regions of Latin America and Rest of World continues to outpace growth in our more established markets.

Total MAUs by Region



Ad-Supported MAUs totaled 109 million at the end of the quarter, up 20% Y/Y. Earlier this year we began rolling out a new user interface for our Ad-Supported tier of service, the first major revision since our mobile product was introduced in 2014. We expect this new user interface to drive improvements in engagement and retention.

We continue to work to identify and remove users that we consider to be “fake” from our reported metrics. This includes, but is not limited to, bots and other users who aim to manipulate stream counts for purposes of royalty calculations. Such users are removed from our metrics in a timely fashion once they are discovered. However, some such users may remain in our reported metrics because of the limitations of our ability to identify their accounts.

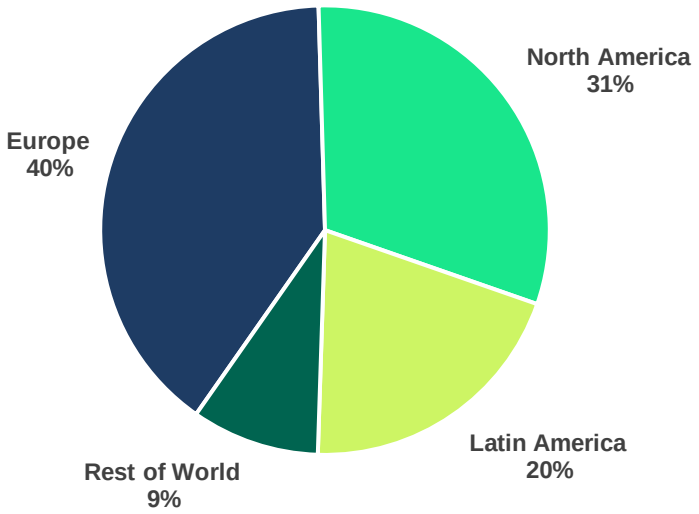
PREMIUM SUBSCRIBERS

Premium Subscribers totaled 87 million at the end of Q3, up 40% Y/Y. Growth continues to be healthy across our Family and Student plans, and the strong retention characteristics of this base continue to drive churn lower. In Q3 average monthly churn declined 90 bps Y/Y, as it did in Q2. This quarter we offered to verified Student subscribers in the US our first ever multi-partner bundle consisting of Spotify, Hulu, and Showtime for $4.99 per month. In addition, we expanded our 3-for-99¢ intro offer campaign for our Student plan globally during August and September to line up with the back-to-school season.

We also announced several other notable partnerships during Q3:

- Globally, Samsung will integrate Spotify into the setup experience on new phones, and Spotify will be the preferred music partner for Samsung's multi-device ecosystem.
- In the UK and Ireland, Sky, Europe's largest pay TV service, will allow users to add Spotify directly to their cable bill.
- In Japan, DAZN, a fast-growing sports subscription streaming service, will partner with Spotify on marketing campaigns promoting Spotify.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total Q3 revenue was €1,352 million, up 31% Y/Y. Excluding the negative impact from foreign exchange rates growth in revenue would have been 33% Y/Y.

Premium revenue was €1,210 million in Q3, up 31% Y/Y. On an F/X neutral basis, Premium revenue was up 34% Y/Y.

Average revenue per user ("ARPU") was €4.73 in Q3. This represents a 6% Y/Y decline, a significant improvement from the 12% Y/Y ARPU decline we reported in Q2. Family and Student plan growth has caused a reduction in ARPU. The marginal downward pressure on ARPU has moderated as the installed base of Family and Student plan subscribers has grown. However, subscriber growth in low ARPU regions like Latin America, Southeast Asia, and other newly launched markets could add incremental downward pressure on ARPU. Changes in foreign exchange rates also contributed to the Y/Y decline in ARPU. Excluding the impact of changes in foreign exchange rates ARPU would have declined 4% Y/Y.

Ad-Supported revenue of €142 million re-accelerated its Y/Y growth in Q3 by 10 bps to 30% as compared with Q2's Y/Y growth. This was a result of changes we made to our data policies in late Q2 to improve our ability to measure performance and show advertising effectiveness. While we did see changes in F/X rates in a number of markets, on a consolidated basis there was no material variance in the F/X neutral growth rate of Ad-Supported revenue.

Ad-Supported revenue growth was due primarily to Y/Y growth in our US direct channel of 32% and global growth in our programmatic channel of 44%. Direct sold ad revenue accounted for 78% of total Q3 Ad-Supported revenue. Demand in the US remains strong and is expected to outstrip our available inventory in Q4.

Last quarter we said that we expected our Programmatic and self-serve products to become a significant portion of our Ad-Supported revenue. If we're successful in achieving this shift in revenue mix, then we also expect to achieve significant operating leverage in the ad sales business, increasing our operating margins. Last quarter we reported on our new automated self-serve platform, Ad Studio, which is live in the US, UK, Canada, and Australia. Ad Studio revenues are still quite small, but we're seeing exponential growth, so expect to hear more about this product in future quarterly updates.

Gross Margin

Gross Margin was 25.3% in Q3, up from 22.3% in Q3 2017, and slightly lower than Q2. As we have previously discussed, Gross Margins are seasonally lower in Q1 and Q3 resulting from the costs of the major seasonal promotional campaigns we typically run in Q2 and Q4 each year. A majority of the expense of these promotional subscribers is absorbed following the quarter of intake onto the platform. As long as we maintain this promotional campaign cycle we would expect this seasonal pattern to continue.

Premium Gross Margin was 26.1% in Q3, down from 26.9% in Q2, but up from 22.9% in Q3 2017. Ad-Supported Gross Margin was 18.6% in Q3, up from 16.3% in Q2 and 17.0% in Q3 2017.

Ad-Supported Gross Margins are relatively strong in our top five markets and relatively weak in our 60 other markets, including newly launched markets. As these markets grow, we believe margins should too. Our Ad-Supported Gross Margin does not show the same seasonality as our Premium Gross Margin and has tended to increase quarterly during the calendar year.

Spotify for Artists

We launched several critical tools on our Spotify for Artists platform this quarter with the aim of making our two-sided marketplace more robust. On September 20, we announced the beta test of our direct upload feature which allows DIY and independent artists to upload their content straight to Spotify. Direct upload has been one of the most consistently requested features from artists over the years. These new tools provide an easy way for creators to get their content onto our platform, reach new and existing fans, and most importantly, get compensated for their

work. These tools are in limited beta in the US, and we hope to expand the program further in the near future.

In addition to direct upload, we also launched a playlist submission feature in July, which enables artists, labels, and their teams to submit unreleased music directly to our editorial team for consideration for inclusion on our O&O playlists. Since then, more than 67,000 artists and labels have submitted content, and over 10,000 artists have been added to our playlists for the first time. Following the results of this beta test, we decided to open this feature to all creators in October. More than 30% of consumption on the platform continues to happen through these types of playlists. Today, approximately 250,000 creators and their teams use Spotify for Artists on a monthly basis.

Separately, we continue to invest in podcasts and other forms of spoken word audio entertainment. We signed an exclusive deal with Joe Budden to bring his self-titled podcast to Spotify on September 12. Since that time, The Joe Budden Podcast has become the #1 podcast on the platform and engagement has been increasing. Our overall market share of podcasts globally continues to grow, and we intend to continue to invest in exclusive and original content on this front through Q4 and beyond.

Operating Expenses / Income (Loss)

Operating expenses totaled €348 million in Q3, resulting in a total Operating Loss of €6 million, better than the low end of our guidance range. Operating Margin of (0.5%) is an improvement of more than 650 bps Y/Y.

Operating margin improvement in Q3 was largely due to shortfalls in hiring, which have continued into Q4. However, we intend to accelerate the pace of investment in R&D and Content in 2019 in order to capitalize on near-term and long-term growth opportunities. If we are successful in accelerating our investments in R&D and Content, these investments are likely to reduce our operating margins for the foreseeable future. We expect to provide guidance for 2019 as part of the Q4 2018 earnings report.

As of September 30, we had 4,040 full-time employees and contractors globally. Research & Development continues to make up the greatest share of hiring, accounting for more than 40% of headcount additions.

IFRS 16

Starting January 1, 2019, we will be adopting a new leasing standard as dictated by IFRS 16. In essence, certain leases which were held on the books as operating leases will be treated as capital leases going forward. Certain leases will be reclassified as assets and liabilities on the balance sheet which will yield increased depreciation and interest expense, offset by a reduction in rental expense. This will have a positive, albeit minimal, impact on Gross Margin, and a much more significant impact on Operating Margin. We will provide additional information on the impact of these changes when they go into effect next year.

Free Cash Flow

We generated €80 million in Net cash flows from operating activities and €33 million in Free Cash Flow in Q3. We maintain positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow excluding the impact of capital expenditures associated with the build-out of new and existing offices in New York, London, Los Angeles, Stockholm, and Boston, among others. We paid out approximately €50 million associated with our office builds during the third quarter. We continue to anticipate these projects to cost more than €275 million and be substantially complete by the end of 2019.

At the end of the quarter we held €1.8 billion in cash and cash equivalents, restricted cash, and short term investments.

OUTLOOK

These forward-looking statements reflect Spotify's expectations as of November 1, 2018 and are subject to substantial uncertainty. For the fourth quarter we are expecting:

- **Total Monthly Active Users ("MAU")**: 199-206 million, up 24-29% Y/Y
- **Total Premium Subscribers:** 93-96 million, up 30-36% Y/Y
- **Total Revenue:** €1.35-€1.55 billion, up 18-35% Y/Y. This includes a negative impact of approximately €20 million from foreign exchange rates; excluding this impact, up 20-37% Y/Y
- **Gross Margin:** 24.0-26.0%, lowered by 50 bps from prior guidance as a result of the impact of Google Home in Q4 (see below)
- **Operating Profit/Loss:** €15-(€35) million

GOOGLE HOME

Yesterday we announced a partnership with Google where Spotify will offer Google Home Mini speakers to Family plan master account holders in the US during the holiday season. We anticipate that this partnership will have an adverse impact of approximately 50 bps on our Gross Margin profile in Q4. This impact is baked into our guidance range above and accounts for all of the reduction in Gross Margin guidance provided previously.

TME INVESTMENT

As previously disclosed, we own shares of Tencent Music Entertainment Group ("TME") which are classified on our balance sheet as a long term investment. During Q3, TME filed a Registration Statement publicly with the SEC, which contained objective evidence that required a mark to market adjustment of the fair value of our TME investment. The revaluation resulted in

the recognition of a portion of the value of our net operating loss carryforwards for tax purposes, which resulted in Net Income for the first time in our operating history.

While TME has filed to go public in the US, their listing has not yet occurred. The value of our investment is held at a price per share of $6.52, which is the most recently estimated fair value of ordinary shares disclosed in TME's publicly filed Registration Statement. Any deviation from this price at quarter end would trigger additional fair market value adjustments.

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Co-Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and via the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (866) 393-4306
Participant International Dial-In Number: (734) 385-2616
Conference ID 4243529

Contacts

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Use of Non IFRS Measures

This shareholder letter includes references to the non-IFRS financial measures of EBITDA and Free Cash Flow. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, make investments, and for certain other activities that excludes certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. This shareholder letter also includes references to the non-IFRS financial measures of Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS.

Forward Looking Statements

We would like to caution you that this letter to shareholders contains "forward-looking statements" as defined in Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with the safe harbor provisions. Such forward-looking statements involve significant risks, uncertainties and assumptions that could cause actual

results to differ materially from our historical experience and our present expectations or projections, including but not limited to the following known material factors: our ability to attract prospective customers and to retain existing customers; our dependence upon third-party licenses for sound recordings and musical compositions; our ability to comply with the many complex license agreements to which we are a party; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; risk associated with unauthorized access of our software and services and manipulation of stream counts and customer accounts; assertions by third parties of infringement or other violations by us of their intellectual property rights; risks related to our status as a foreign private issuer; dilution resulting from additional share issuances; the concentration of voting power among our founders who have and will continue to have substantial control over our business; tax-related risks; unanticipated changes relating to competitive factors in our industry; ability to hire and retain key personnel; changes in legislation or governmental regulations affecting us; international, national or local economic, social or political conditions; conditions in the credit markets; risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and such other risks as set forth in our filings with the United States Securities and Exchange Commission.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except to the extent required by law.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	1,352	1,273	1,032	3,764	2,941
Cost of revenue	1,010	944	802	2,810	2,374
Gross profit	**342**	**329**	**230**	**954**	**567**
Research and development	135	143	98	393	273
Sales and marketing	146	173	138	457	394
General and administrative	67	103	67	241	191
	348	**419**	**303**	**1,091**	**858**
Operating loss	**(6)**	**(90)**	**(73)**	**(137)**	**(291)**
Finance income	10	41	14	66	82
Finance costs	(85)	(343)	(219)	(582)	(429)
Share in (losses)/earnings of associate	(1)	—	—	(1)	1
Finance income/(costs) - net	**(76)**	**(302)**	**(205)**	**(517)**	**(346)**
Loss before tax	**(82)**	**(392)**	**(278)**	**(654)**	**(637)**
Income tax (benefit)/expense	(125)	2	—	(134)	2
Net income/(loss) attributable to owners of the parent	**43**	**(394)**	**(278)**	**(520)**	**(639)**
Earnings/(loss) per share attributable to owners of the parent					
Basic	0.24	(2.20)	(1.84)	(2.96)	(4.24)
Diluted	0.23	(2.20)	(1.84)	(2.96)	(4.24)
Weighted-average ordinary shares outstanding					
Basic	180,510,524	179,077,124	151,289,732	175,835,503	150,840,515
Diluted	188,120,122	179,077,124	151,289,732	175,835,503	150,840,515

Interim condensed consolidated statement of financial position
(in € millions)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Non-current assets		
Property and equipment	135	73
Intangible assets including goodwill	173	162
Investment in associate	—	1
Long term investments	1,589	910
Restricted cash and other non-current assets	65	54
Deferred tax assets	11	9
	1,973	**1,209**
Current assets		
Trade and other receivables	359	360
Income tax receivable	2	—
Short term investments	669	1,032
Cash and cash equivalents	1,095	477
Other current assets	35	29
	2,160	**1,898**
Total assets	**4,133**	**3,107**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	3,783	2,488
Other reserves	758	177
Accumulated deficit	(2,947)	(2,427)
Equity attributable to owners of parent	**1,594**	**238**
Non-current liabilities		
Convertible notes	—	944
Accrued expenses and other liabilities	78	56
Provisions	8	6
Deferred tax liabilities	2	3
	88	**1,009**
Current liabilities		
Trade and other payables	384	341
Income tax payable	3	9
Deferred revenue	240	216
Accrued expenses and other liabilities	1,064	881
Provisions	49	59
Derivative liabilities	711	354
	2,451	**1,860**
Total liabilities	**2,539**	**2,869**
Total equity and liabilities	**4,133**	**3,107**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Operating activities					
Net income/(loss)	43	(394)	(278)	(520)	(639)
Adjustments to reconcile net loss to net cash flows					
Depreciation of property and equipment	4	4	12	17	35
Amortization of intangible assets	3	2	3	7	6
Share-based payments expense	24	23	18	65	51
Finance income	(10)	(41)	(14)	(66)	(82)
Finance costs	85	343	219	582	429
Income tax (benefit)/expense	(125)	2	—	(134)	2
Share in losses/(earnings) of associate	1	—	—	1	(1)
Other	(6)	(3)	(2)	(8)	1
Changes in working capital:					
(Increase)/decrease in trade receivables and other assets	(29)	12	(39)	(2)	(66)
Increase/(decrease) in trade and other liabilities	86	78	(15)	234	252
Increase in deferred revenue	5	7	10	21	34
(Decrease)/increase in provisions	(3)	(4)	1	(10)	47
Interest received	3	2	4	15	13
Net income tax (paid)/received	(1)	(1)	—	(8)	2
Net cash flows from/(used in) operating activities	**80**	**30**	**(81)**	**194**	**84**
Investing activities					
Purchases of property and equipment	(49)	(5)	(9)	(60)	(15)
Purchases of short term investments	(54)	(444)	(237)	(769)	(904)
Sales and maturities of short term investments	279	451	257	1,160	843
Change in restricted cash	2	(7)	1	(9)	(35)
Other	(22)	(12)	(1)	(44)	(45)
Net cash flows from/(used in) investing activities	**156**	**(17)**	**11**	**278**	**(156)**
Financing activities					
Proceeds from issuance of ordinary shares	—	—	—	4	—
Proceeds from exercise of share options	50	57	2	146	22
Other	(1)	(2)	(2)	(3)	(4)
Net cash flow from financing activities	**49**	**55**	**9**	**147**	**27**
Net increase in cash and cash equivalents	**285**	**68**	**(61)**	**619**	**(45)**
Cash and cash equivalents at beginning of the period	810	733	732	477	755
Net exchange gains/(losses) on cash and cash equivalents	—	9	(3)	(1)	(42)
Cash and cash equivalents at period end	**1,095**	**810**	**668**	**1,095**	**668**

Reconciliation of IFRS to Non-IFRS Results

(Unaudited)

(in € millions, except percentages)

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
IFRS revenue	1,352	1,032	3,764	2,941
Foreign exchange effect on 2018 revenue using 2017 rates	24		200	
Revenue excluding foreign exchange effect	1,376		3,964	
IFRS revenue year-over-year change %	31%		28%	
Revenue excluding foreign exchange effect year-over-year change %	33%		35%	
IFRS Premium revenue	1,210	923	3,397	2,655
Foreign exchange effect on 2018 Premium revenue using 2017 rates	24		178	
Premium revenue excluding foreign exchange effect	1,234		3,575	
IFRS Premium revenue year-over-year change %	31%		28%	
Premium revenue excluding foreign exchange effect year-over-year change %	34%		35%	
IFRS Ad-Supported revenue	142	109	367	286
Foreign exchange effect on 2018 Ad-Supported revenue using 2017 rates	—		22	
Ad-Supported revenue excluding foreign exchange effect	142		389	
IFRS Ad-Supported revenue year-over-year change %	30%		28%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	30%		36%	

EBITDA

(Unaudited)

(in € millions)

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income/(loss) attributable to owners of the parent	43	(394)	(278)	(520)	(639)
Finance (income)/costs - net	76	302	205	517	346
Income tax (benefit)/expense	(125)	2	—	(134)	2
Depreciation and amortization	7	6	15	24	41
EBITDA	**1**	**(84)**	**(58)**	**(113)**	**(250)**

Free Cash Flow

(Unaudited)

(in € millions)

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net cash flows from/(used in) operating activities	80	30	(81)	194	84
Capital expenditures	(49)	(5)	(9)	(60)	(15)
Change in restricted cash	2	(7)	1	(9)	(35)
Free Cash Flow	**33**	**18**	**(89)**	**125**	**34**

February 6, 2019

Dear Shareholders,

Results for Q4 2018 outperformed our expectations and, for the first time in company history, Operating Income, Net Income, and Free Cash Flow were all positive.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q4 2017**	**Q3 2018**	**Q4 2018**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	160	191	207	29%	8%
Premium Subscribers	71	87	96	36%	11%
Ad-Supported MAUs	93	109	116	24%	6%
FINANCIALS (€M)					
Premium	1,018	1,210	1,320	30%	9%
Ad-Supported	130	142	175	34%	23%
Total Revenue	**1,149**	**1,352**	**1,495**	**30%**	**11%**
Gross Profit	282	342	399	42%	17%
Gross Margin	**24.5%**	**25.3%**	**26.7%**	**--**	**--**
Operating (Loss)/Income	**(87)**	**(6)**	**94**	**--**	**--**
Operating Margin	(7.6%)	(0.5%)	6.3%	--	--
Net cash flows from operating activities	95	80	150	58%	88%
Free Cash Flow[1]	**75**	**33**	**84**	**12%**	**155%**

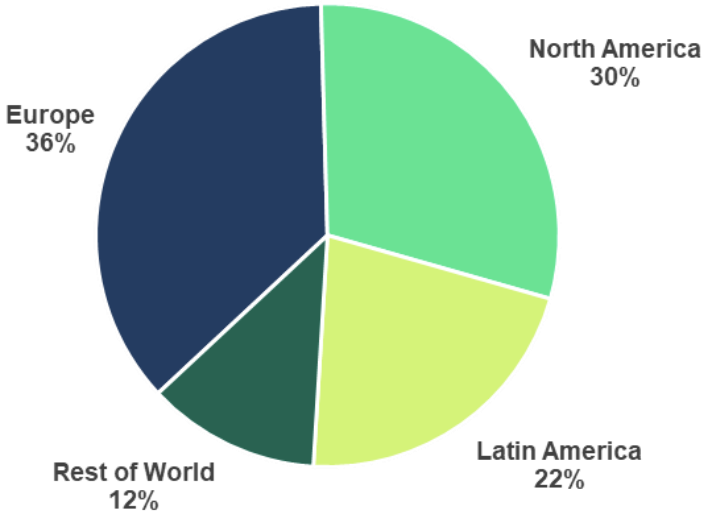
[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

MONTHLY ACTIVE USERS

MAUs grew 29% Y/Y to 207 million, outperforming the high end of our 199-206 million MAU guidance range. This outperformance was broad based, with growth in most markets exceeding our expectations, primarily as a result of improved retention relative to our forecast. Latin America and other emerging regions continue to see especially strong growth.

During Q4 our footprint expanded to 78 countries from 65 as we launched our service across 13 countries in the Middle East and North Africa in mid-November. Performance to date has exceeded our initial expectations, and we hope to build on this momentum in 2019.

Total MAUs by Region



We also reached an important milestone as users listened to more than 15 billion hours of content on the platform during Q4. Importantly, engagement grew across both the Ad-Supported and Premium tiers.

PREMIUM SUBSCRIBERS

Premium Subscribers reached 96 million, up 36% Y/Y, hitting the high end of our guidance range of 93-96 million. Outperformance was largely attributable to better than expected intake from our Google Home promotion and annual Holiday campaign.

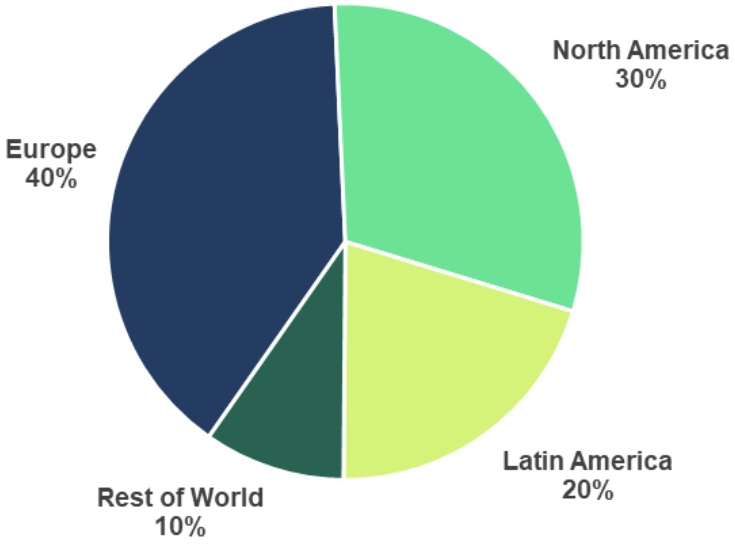
Our Google Home promotion marked the first ever hardware bundle offering in company history. For a limited time during Q4, master account holders of our Family Plan in the US were able to claim a Google Home Mini speaker free of charge. We believe home voice speakers are a

critical area of growth, particularly for music and audio content, and we are evaluating a number of ways to explore and refine our offering in this arena.

We ran our annual Holiday conversion promotion during Q4, which outperformed our expectations for new subscriber additions. Over the course of 6 weeks, almost 7 million subscribers were added through this campaign, including a single day record of almost 500,000. In December, we also launched our annual Wrapped Holiday brand campaign where existing users were able to explore stats about their listening habits throughout the year. The campaign saw the highest traffic ever to the Wrapped site spotifywrapped.com, with 28 million users visiting the site in just one week (up from 20 million last year total.) The Holiday campaign became the #1 trending topic on Twitter globally and generated over 5 billion streams of the "Your Top Songs 2018" playlist, now the fastest growing personalized playlist in Spotify history.

Growth in both Family and Student plans was healthy, and churn continues to trend down, improving more than 30 bps Y/Y in Q4. We expect to see a sequential increase in churn in Q1 owing to the rapid campaign growth in Q4. Despite these seasonal effects, we expect churn to continue to decline over the course of 2019.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total Q4 revenue was €1,495 million, up 30% Y/Y. Foreign exchange rates negatively impacted our Premium segment and positively impacted our Ad-Supported segment yielding minimal impact on our consolidated results.

Premium revenue was €1,320 million in Q4, up 30% Y/Y. Average revenue per user ("ARPU") was €4.89 in Q4. This represents a 7% Y/Y decline (6% excluding the impact from foreign exchange rates). The downward pressure on ARPU continues to be driven by product mix (Family Plan and Student Plan as a percentage of the total base), and is increasingly driven by market mix as growth in our relatively lower ARPU markets is outpacing geographies with higher ARPU. Despite the decline in ARPU, Lifetime Value per Subscriber ("LTV") has remained constant Y/Y as improvements in churn offset the decline in ARPU.

Ad-Supported revenue of €175 million re-accelerated its Y/Y growth in Q4 to 34% (31% excluding the impact from foreign exchange rates) as compared to 30% Y/Y growth in Q3. Revenue from North America continued to accelerate, growing 41% Y/Y (37% excluding movements in F/X). Both Audio and Video format ads grew more than 40% in Q4. While Audio remains our largest contributor to Total Revenue, the recent implementation of cost-per-completed-view pricing across a larger amount of our video inventory offers a runway to accelerated future growth. The changes we made in late Q2 to our data policies to improve our ability to measure performance and show advertising effectiveness continued to drive strong performance in Q4 with revenue growth in third party measurement products of 77% Y/Y.

Growth in our Programmatic and Self-Serve (Ad Studio) channels continue to outpace the growth of Direct. Combined they grew ~60% Y/Y and together account for ~25% of our total Ad Sales revenue. More than 2,000 advertisers used our Ad Studio platform in Q4 to run campaigns. We continue to expect these automated channels to become an increasingly significant portion of our Ad-Supported revenue, and for operating margins to expand as a result.

Gross Margin

Gross Margin was 26.7% in Q4, above the high end of our guidance range of 24-26%, and up 220 bps Y/Y. Several one-time items contributed to the growth in gross margin, the largest of which was a license fee adjustment relating to prior periods that was booked in Q4. Excluding non-recurring items in Q4, our GM would have been 25.8%. This 25.8% includes the impact from the Google Home Mini offer.

Premium Gross Margin was 27.3% in Q4, up from 26.1% in Q3, and up 200 bps Y/Y. Ad-Supported Gross Margin was 22.1% in Q4, up from 18.6% in Q3, and up 350 bps Y/Y.

As a reminder, Ad-Supported Gross Margins are relatively strong in our top five markets and relatively weak in our 73 other markets, including newly launched markets. As these markets

grow, we believe margins should too. Our Ad-Supported Gross Margin does not show the same seasonality as our Premium Gross Margin, and has tended to increase quarterly during the calendar year.

Spotify for Artists

Today, more than 300,000 creators and their teams use our Artist platform on a monthly basis, and we added several more features to our creator marketplace tool in Q4. On October 3, 2018 we launched Spotify for Podcasters, a platform where podcast creators who host their podcasts elsewhere can make their shows available to Spotify users by providing us with their podcast feed. Users have access to episode performance, daily stats on listener demographics, location, engagement, and more—great tools to help learn more about and grow audiences. More than 10,000 podcasters are using this tool on a monthly basis to gain deeper insight into their audience. Today, there are more than 185,000 podcast titles available on our platform, and consumption continues to grow rapidly. In Q4 we had 14 titles exclusive to Spotify including the 2nd season of Crimetown, The Rewind with Guy Raz, and the Dissect Mini Series hosted by Lauryn Hill.

On November 8, 2018 we launched Spotify Publishing Analytics in Beta, the first analytics tool from a music streaming service built specifically for publishers. The tool gives publishers daily streaming statistics for the works and recordings they have identified, including playlist performance, as well as the ability to view data for each of the songwriters on their roster. More than 1,000 users from music publishers around the world requested access to the beta version of the site within the first two weeks of launch, and we plan to expand the offering throughout 2019.

Operating Expenses / Income (Loss)

Operating expenses of €305 million in Q4 were down 17% Y/Y, resulting in an Operating Profit of €94 million. This is Spotify's first ever quarterly Operating Profit.

Movements in our share price in Q4 had a sizeable impact on our reported results, although the business would have been profitable regardless. The stock price decline resulted in a significant reduction of accrued social costs for stock options and RSUs, leading to a significant delta between our guidance and reported results. As a reminder, social costs are payroll taxes associated with employee salaries and benefits, including stock based compensation. We are subject to social taxes in several countries in which we operate, although Sweden accounts for the bulk of the accrued cost. Removing the impact of these costs, our results would have been slightly above the high end of our Q4 guidance. Strong gross margin and slower than planned headcount growth were the primary drivers of this performance.

As of December 31, we had 4,165 full-time employees and contractors globally. Hiring in the quarter continued to focus heavily on our Research & Development efforts with more than 40% of headcount additions in that area.

IFRS 16

Starting January 1, 2019, we adopted the new lease accounting standards dictated by IFRS 16. This requires that certain leases which were accounted for as operating leases be treated as capital leases going forward. Certain leases will be reclassified as assets and liabilities on the balance sheet which will yield increased depreciation and interest expense, offset by a reduction in rental expense.

Free Cash Flow

We generated €150 million in net cash flows from operating activities and €84 million in Free Cash Flow in Q4, up 12% Y/Y. We maintain positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow excluding the impact of capital expenditures associated with the build-out of new and existing offices in New York, London, Los Angeles, Stockholm, and Boston, among others. We paid out approximately €65 million associated with our office builds in Q4. We expect to complete these projects in 2019 at a cost of roughly €200M.
We ended Q4 with €1.8 billion in cash and cash equivalents, restricted cash, and short term investments.

Growth through Acquisition

Today we announced that we have entered into definitive agreements to acquire two of the leading players in the emerging podcast marketplace. We want to acquire more, and have line-of-sight on total spend of $400-$500M on multiple acquisitions in 2019. Growing podcast listening on Spotify is an important strategy for driving top of funnel growth, increased user engagement, lower churn, faster revenue growth, and higher margins. We intend to lean into this strategy in 2019, both to acquire exclusive content and to increase investment in the production of content in-house. The more successful we are, the more we'll lean into the strategy to accelerate our growth, in which case we would update guidance accordingly.

Q1 2019 AND FULL YEAR OUTLOOK

These forward-looking statements reflect Spotify's expectations as of February 6, 2019 and are subject to substantial uncertainty.

NOTE: Our full year guidance includes the revenue and costs associated with the announced acquisitions that we expect to close in Q1. In aggregate, the impact of M&A on our guidance includes an increase of €25-30 million to revenue, a negative impact of 20-30 basis points to GM, and an increase of €40-50 million to operating expenses.

Q1 2019 Guidance:

- **Total Monthly Active Users ("MAU")**: 215-220 million, up 24-27% Y/Y
- **Total Premium Subscribers:** 97-100 million, up 29-33% Y/Y
- **Total Revenue:** €1.35-€1.55 billion, up 19-36% Y/Y
- **Gross Margin:** 22.5-24.5%
- **Operating Profit/Loss:** €(50)-(€120) million

Full Year 2019 Guidance:

- **Total Monthly Active Users ("MAU")**: 245-265 million, up 18-28% Y/Y
- **Total Premium Subscribers:** 117-127 million, up 21-32% Y/Y
- **Total Revenue:** €6.35-€6.8 billion, up 21-29% Y/Y
- **Gross Margin:** 22.0-25.0%
- **Operating Profit/Loss:** €(200)-(€360) million

As with last year, our quarterly and annual guidance includes an estimate of the impact of social charges on our financial statements. This expense can vary materially from quarter to quarter based on fluctuations in the price of Spotify stock, which impacts our accruals for future expenses. Our forecast guidance ranges incorporate our best estimate of the impact of social charges on our income statement; however, material changes in the value of Spotify's stock price could have an outsized impact on our reported profit or loss for the quarter and/or the year.

WARRANTS

Our founders, Daniel Ek and Martin Lorentzon, hold warrants in the company. We account for these warrants on a mark-to-market basis in "Finance Income" on our P&L. In Q4, we recorded a Fair Market Value gain on these warrants amounting to €373 million, primarily due to the decrease in our share price in the public market. These gains were considered in the calculation of Diluted EPS for Q4 and FY 2018.

SHARE REPURCHASE PROGRAM UPDATE

On November 5, 2018, Spotify announced a program to repurchase up to $1.0 billion of its publicly traded shares. During Q4, the company repurchased 687,271 shares at a total cost of $87.3 million and an average cost of $127.01 per share.

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Co-Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and via the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (866) 393-4306
Participant International Dial-In Number: (734) 385-2616
Conference ID 1293144

Contacts

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ir@spotify.com

Public Relations:
Dustee Jenkins
press@spotify.com

Use of Non IFRS Measures

This shareholder letter includes references to the non-IFRS financial measures of EBITDA and Free Cash Flow. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, make investments, and for certain other activities that excludes certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. This shareholder letter also includes references to the non-IFRS financial measures of Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “seek,” “believe,” “estimate,” “predict,” “potential,” “continue,” “contemplate,” “possible,” and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; our dependence upon third-party licenses for sound recordings and musical compositions; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; competition for users and user listening time; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; ability to hire and retain key personnel; our ability to maintain,

protect, and enhance our brand; risks associated with our international expansion, including difficulties obtaining rights to stream music on favorable terms; risks relating to the acquisition, investment, and disposition of companies or technologies; dilution resulting from additional share issuances; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls.

Other sections of this report describe additional risk factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor are we able to assess the impact of all of these risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. You should read this report and the documents that we have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different and worse from what we expect.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenue	1,495	1,352	1,149	5,259	4,090
Cost of revenue	1,096	1,010	867	3,906	3,241
Gross profit	**399**	**342**	**282**	**1,353**	**849**
Research and development	100	135	123	493	396
Sales and marketing	163	146	173	620	567
General and administrative	42	67	73	283	264
	305	**348**	**369**	**1,396**	**1,227**
Operating income/(loss)	**94**	**(6)**	**(87)**	**(43)**	**(378)**
Finance income	389	10	36	455	118
Finance costs	(2)	(85)	(545)	(584)	(974)
Share in (losses)/earnings of associate	—	(1)	—	(1)	1
Finance income/(costs) - net	**387**	**(76)**	**(509)**	**(130)**	**(855)**
Loss before tax	**481**	**(82)**	**(596)**	**(173)**	**(1,233)**
Income tax expense/(benefit)	39	(125)	—	(95)	2
Net income/(loss) attributable to owners of the parent	**442**	**43**	**(596)**	**(78)**	**(1,235)**
Earnings/(loss) per share attributable to owners of the parent					
Basic	2.44	0.24	(3.87)	(0.44)	(8.14)
Diluted	0.36	0.23	(3.87)	(0.51)	(8.14)
Weighted-average ordinary shares outstanding					
Basic	181,067,994	180,510,524	154,126,524	177,154,405	151,668,769
Diluted	190,511,148	188,120,122	154,126,524	181,210,292	151,668,769

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	December 31, 2018	December 31, 2017
Assets		
Non-current assets		
Property and equipment	197	73
Intangible assets including goodwill	174	162
Investment in associate	—	1
Long term investments	1,646	910
Restricted cash and other non-current assets	65	54
Deferred tax assets	8	9
	2,090	**1,209**
Current assets		
Trade and other receivables	400	360
Income tax receivable	2	—
Short term investments	915	1,032
Cash and cash equivalents	891	477
Other current assets	38	29
	2,246	**1,898**
Total assets	**4,336**	**3,107**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	3,801	2,488
Treasury shares	(77)	—
Other reserves	875	177
Accumulated deficit	(2,505)	(2,427)
Equity attributable to owners of parent	**2,094**	**238**
Non-current liabilities		
Convertible notes	—	944
Accrued expenses and other liabilities	85	56
Provisions	8	6
Deferred tax liabilities	2	3
	95	**1,009**
Current liabilities		
Trade and other payables	427	341
Income tax payable	5	9
Deferred revenue	258	216
Accrued expenses and other liabilities	1,076	881
Provisions	42	59
Derivative liabilities	339	354
	2,147	**1,860**
Total liabilities	**2,242**	**2,869**
Total equity and liabilities	**4,336**	**3,107**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Operating activities					
Net income/(loss)	442	43	(596)	(78)	(1,235)
Adjustments to reconcile net loss to net cash flows					
Depreciation of property and equipment	4	4	11	21	46
Amortization of intangible assets	4	3	2	11	8
Share-based payments expense	23	24	14	88	65
Finance income	(389)	(10)	(36)	(455)	(118)
Finance costs	2	85	545	584	974
Income tax expense/(benefit)	39	(125)	—	(95)	2
Share in losses/(earnings) of associate	—	1	—	1	(1)
Other	15	(6)	(4)	7	(3)
Changes in working capital:					
Increase in trade receivables and other assets	(59)	(29)	(46)	(61)	(112)
Increase in trade and other liabilities	57	86	195	291	447
Increase in deferred revenue	17	5	43	38	77
(Decrease)/increase in provisions	(7)	(3)	(39)	(17)	8
Interest received	3	3	6	18	19
Income tax (paid)/received	(1)	(1)	—	(9)	2
Net cash flows from operating activities	**150**	**80**	**95**	**344**	**179**
Investing activities					
Purchases of property and equipment	(65)	(49)	(21)	(125)	(36)
Purchases of short term investments	(300)	(54)	(482)	(1,069)	(1,386)
Sales and maturities of short term investments	66	279	237	1,226	1,080
Change in restricted cash	(1)	2	1	(10)	(34)
Other	—	(22)	(14)	(44)	(59)
Net cash flows (used in)/from investing activities	**(300)**	**156**	**(279)**	**(22)**	**(435)**
Financing activities					
Proceeds from exercise of share options	17	50	7	163	29
Purchases of treasury shares	(72)	—	—	(72)	—
Other	—	(1)	—	1	5
Net cash flow (used in)/from financing activities	**(55)**	**49**	**7**	**92**	**34**
Net increase in cash and cash equivalents	**(205)**	**285**	**(177)**	**414**	**(222)**
Cash and cash equivalents at beginning of the period	1,095	810	668	477	755
Net exchange gains/(losses) on cash and cash equivalents	1	—	(14)	—	(56)
Cash and cash equivalents at period end	**891**	**1,095**	**477**	**891**	**477**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Year ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
IFRS revenue	1,495	1,149	5,259	4,090
Foreign exchange effect on 2018 revenue using 2017 rates	2		202	
Revenue excluding foreign exchange effect	1,497		5,461	
IFRS revenue year-over-year change %	30%		29%	
Revenue excluding foreign exchange effect year-over-year change %	30%		34%	
IFRS Premium revenue	1,320	1,018	4,717	3,674
Foreign exchange effect on 2018 Premium revenue using 2017 rates	6		184	
Premium revenue excluding foreign exchange effect	1,326		4,901	
IFRS Premium revenue year-over-year change %	30%		28%	
Premium revenue excluding foreign exchange effect year-over-year change %	30%		33%	
IFRS Ad-Supported revenue	175	130	542	416
Foreign exchange effect on 2018 Ad-Supported revenue using 2017 rates	(4)		18	
Ad-Supported revenue excluding foreign exchange effect	171		560	
IFRS Ad-Supported revenue year-over-year change %	34%		30%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	31%		35%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income/(loss) attributable to owners of the parent	442	43	(596)	(78)	(1,235)
Finance (income)/costs - net	(387)	76	509	130	855
Income tax expense/(benefit)	39	(125)	—	(95)	2
Depreciation and amortization	8	7	13	32	54
EBITDA	**102**	**1**	**(74)**	**(11)**	**(324)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net cash flows from operating activities	150	80	95	344	179
Capital expenditures	(65)	(49)	(21)	(125)	(36)
Change in restricted cash	(1)	2	1	(10)	(34)
Free Cash Flow	**84**	**33**	**75**	**209**	**109**

April 29, 2019

Dear Shareholders,

Results for Q1 2019 were largely positive with most metrics outperforming our expectations and landing at the high end of, or exceeding, our Q1 guidance.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q1 2018**	**Q4 2018**	**Q1 2019**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	173	207	217	26%	5%
Premium Subscribers	75	96	100	32%	4%
Ad-Supported MAUs	102	116	123	21%	6%
FINANCIALS (€M)					
Premium	1,037	1,320	1,385	34%	5%
Ad-Supported	102	175	126	24%	(28%)
Total Revenue	**1,139**	**1,495**	**1,511**	**33%**	**1%**
Gross Profit	283	399	373	32%	(7%)
Gross Margin	**24.9%**	**26.7%**	**24.7%**	**--**	**--**
Operating (Loss)/Income	**(41)**	**94**	**(47)**	**16%**	**(150%)**
Operating Margin	(3.6%)	6.3%	(3.1%)	--	--
Net cash flows from operating activities	84	150	209	149%	39%
Free Cash Flow[1]	**74**	**84**	**173**	**134%**	**106%**

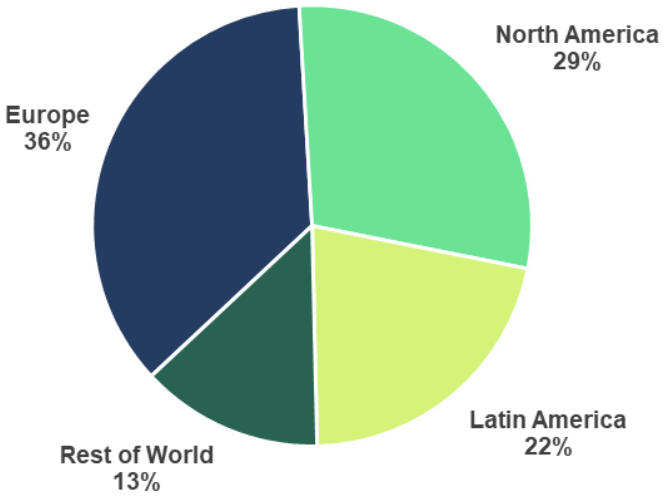
[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

MONTHLY ACTIVE USERS ("MAUs")

MAUs grew 26% Y/Y to 217 million, slightly lower than the midpoint of our 215-220 million MAU guidance range.

We launched India in late February expanding our global market footprint to 79 countries. More than 1 million users signed up for Spotify in our first week in the market, and growth has continued to outpace our expectations. We now have more than 2 million users in India.

Total MAUs by Region



PREMIUM SUBSCRIBERS

Premium Subscribers grew to 100 million, up 32% Y/Y, reaching the high end of our guidance range of 97-100 million, and marking an important milestone in Company history. Outperformance was driven by a better than plan promotion in the US and Canada and continued strong growth in Family Plan. We also saw strong growth from the expansion of our Google Home Mini promotion, as well as the price reduction to our Spotify Premium + Hulu offering in the US.

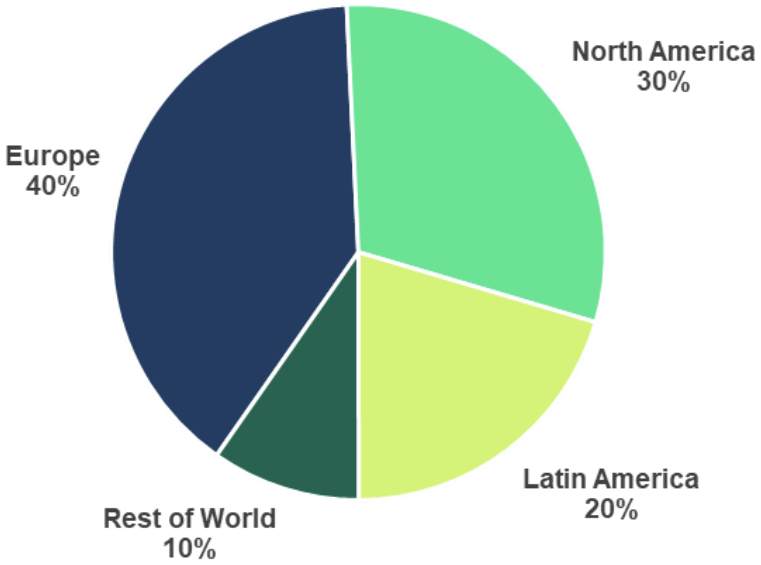
In March, we extended our partnership with Google by expanding our Google Home Mini promotion to two new markets, the UK and France. The new promotional offer is substantially similar to the deal offered in the US in Q4. In the UK and France, new and existing Family Plan master account holders can claim a free Google Home Mini voice speaker. We believe that voice speakers are a critical area of growth, particularly for music and podcasts, and we intend to continue to pursue opportunities to expand our presence in that area.

We announced a significant step forward in our ongoing partnership with Samsung during Q1 whereby the Spotify app will be preloaded on millions of new devices globally. New users in the US who purchase Samsung's flagship Galaxy S10 device with the Spotify app preloaded also will have access to a special six-month free trial offer for Spotify Premium.

Additionally, we expanded our partnership with Hulu during Q1 by offering their limited commercial plan to our Standard $9.99 subscribers at no additional charge. This promotion replaces our existing $12.99 Spotify + Hulu bundle and builds upon the success and popularity of our Spotify Student + Hulu plan available in the US.

Family and Student plans continue their fast growth and have continued to increase as a percentage of our total subscribers. Churn was flat with Q4 and also roughly the same as Q1 of 2018.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total Q1 revenue of €1,511 million grew 33% Y/Y.

Premium revenue of €1,385 million in Q1 grew 34% Y/Y, the third quarter of accelerating Y/Y growth in the last four quarters. Average revenue per user ("ARPU") was €4.71 in Q1, roughly flat Y/Y (down 2% excluding the impact from foreign exchange rates). Downward pressure on ARPU has moderated, and we expect that ARPU declines through the remainder of the year will be in the low single digits. As we've spoken about in previous quarters, the declines in ARPU are a result of shifts in both product and geographic mix. Approximately 75% of the impact to

ARPU is attributable to product mix changes, and the remainder a function of changes in geographic mix and other factors.

Ad-Supported revenue of €126 million grew 24% Y/Y. We saw a small incremental benefit from podcasts during Q1 following our acquisitions of Gimlet Media and Anchor in February and the successful rollout of Spotify owned and exclusive content (*The Joe Budden Podcast*, *Amy Schumer Presents: 3 Girls, 1 Keith*, *Dope Labs*, etc.) We expect the revenue from podcasts to accelerate through 2019. Over time, our ambition is to develop a more robust advertising solution for podcasts that will allow us to layer in the kind of targeting, measurement, and reporting capabilities we have for the core Ad-Supported business.

Ad-Supported revenue growth underperformed our expectations in Q1, primarily in the US and primarily with our sponsored sessions video product. The performance shortfall was pricing related. We have course corrected and are seeing strong growth across the ads business in Q2.

Two of our strongest areas of growth in Q1 were measurement and programmatic revenues. Measurement related revenues doubled from 20% to 40% of total ad revenues Y/Y, while Programmatic and Self-Serve grew 53% Y/Y and now account for 26% of Total Ad-Supported Revenue.

In April of last year we officially unveiled a new Ad-Supported experience on Spotify. The updated user experience provided greater consumer control and an increased focus on curation and personalization. The net result has been a 12% increase in Content Hours per MAU across our free tier. This means accelerating growth in ad inventory, which should mean stronger Ad-Supported revenue growth.

Gross Margin

Gross Margin was 24.7% in Q1, above the high end of our guidance range of 22.5-24.5%. Outperformance relative to our expectations resulted from a combination of outperformance of Premium Subscribers, slower than anticipated release of original podcast content, and supply constraints of Google Home Mini devices relating to our Family Plan promotion.

Premium Gross Margin was 25.9% in Q1, down from 27.3% in Q4 and down 20 bps Y/Y. Ad-Supported Gross Margin was 11.1% in Q1, down seasonally from 22.1% in Q4 and down 160 bps Y/Y.

Spotify for Artists

In October 2018, we launched Spotify for Podcasters in beta, a platform that provides podcast creators with tools and data insights about audience demographics. Early adoption continues to gain momentum, as the number of podcast creators using the platform has nearly doubled in the first 6 months. More than 20,000 podcast teams are now using the platform on a monthly basis. Additionally, more than 50,000 shows have been submitted to Spotify through Spotify for Podcasters, enabling listeners around the world to discover new and unique content that suits their interests. Today there are more than 250,000 podcast titles available on our platform. In

Q1 we launched 15 originals and exclusives including *Podkinski* in Germany, *Gynning & Berg* in Sweden, and our daily news podcast, *Cafe da Manha* in Brazil, a format we hope to expand to other countries in Latin America.

Last month Spotify for Artists launched a new feature called Unique Links. This tool enables artists to share a customized URL that links to a playlist featuring their track(s) at the top of the playlist. By offering greater personalization of Editorial playlists, we've increased the number of artists featured on playlists by 30% and the number of songs listeners are discovering by 35%.

In Q1 we continued to develop tools for Spotify Publishing Analytics. We introduced playlist add annotations which allow publishers to see when their songs are added to playlists and understand which playlists drive spikes in listening. To date we've seen engagement from 40 of the top music publishers around the world.

Operating Expenses / Income (Loss)

Operating expenses of €420 million in Q1 increased 30% Y/Y. Operating Losses totaled €47 million yielding an Operating Margin of (3.1%), an improvement of 50 bps Y/Y. Our better than expected loss in the quarter was a result of higher Gross Profit and lower than expected marketing spend.

The growth in our share price in Q1 significantly increased our operating expenses for the quarter. The increase in our stock price resulted in a significant increase of accrued social costs for stock options and RSUs. As a reminder, social costs are payroll taxes associated with employee salaries and benefits, including stock based compensation. We are subject to social taxes in several countries in which we operate, although Sweden accounts for the bulk of the social costs. We don't forecast stock price changes in our guidance so material upward or downward movements can have an outsized impact on our reported operating expenses.

IFRS 16

Starting January 1, 2019, we adopted the new lease accounting standards dictated by IFRS 16. This required certain leases which were accounted for as operating leases be treated as finance leases going forward. Certain leases were reclassified as assets and liabilities on the balance sheet which yielded increased depreciation and interest expense, offset by a reduction in rental expense. We recognized €9 million of lease liability interest expense in finance costs during the first quarter of 2019.

Free Cash Flow

We generated €209 million in net cash flows from operating activities and €173 million in Free Cash Flow in Q1. Both more than doubled Y/Y. Free Cash Flow in Q1 benefited from the growth of accounts payable. We maintain positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow, excluding the impact of capital expenditures associated with the build-out of new and existing offices in New York, London, Los Angeles, Stockholm, and Boston, among others. We paid out approximately €37 million associated with our office builds in Q1. We expect to complete these projects over the next 12 months at a cost of roughly €200

million. As a result, we are expecting a sequential increase in capital expenditures for office space in Q2 of approximately €25 million.

We ended Q1 with €1.7 billion in cash and cash equivalents, restricted cash, and short term investments.

Q1 Investments Update

In Q1 the value of our Tencent Music ("TME") investment increased by €652 million to €2.3 billion. The change in value was accounted for as a gain in Other Comprehensive Income. We also spent €308 million in total purchase consideration to acquire Gimlet Media and Anchor FM, and subsequent to the quarter end, we acquired a third podcasting company, Cutler Media, LLC ("Parcast"), for total purchase consideration of approximately €50 million. The combined purchase consideration for all three podcast companies was €358M which is roughly equivalent to Spotify's cumulative FCF over the last three quarters, or alternatively, 55% of the Q2 increase in the value of our TME investment.

Growth of Global Recorded Music Market Accelerates

The International Federation of the Phonographic Industry ("IFPI") released its annual Global Music Report in April 2019. IFPI reported that industry growth accelerated to 9.7% in 2018 to $19.1 billion, an increase from 8.1% in 2017 and the fourth consecutive year of growth. While Physical declined 10% and Downloads declined 21%, Streaming grew 34%, and now accounts for 47% of all industry revenue. Streaming is the engine driving the growth in recorded music revenue and Spotify is the engine driving the growth in Streaming.

Q2 2019 AND FULL YEAR OUTLOOK

These forward-looking statements reflect Spotify's expectations as of April 29, 2019 and are subject to substantial uncertainty.

Q2 2019 Guidance:

- **Total MAUs**: 222-228 million, up 23-27% Y/Y
- **Total Premium Subscribers:** 107-110 million, up 29-34% Y/Y
- **Total Revenue:** €1.51-€1.71 billion, up 18-35% Y/Y
- **Gross Margin:** 23.5-25.5%
- **Operating Profit/Loss:** €(15)-(€95) million

Full Year 2019 Guidance:

- **Total MAUs**: 245-265 million, up 18-28% Y/Y
- **Total Premium Subscribers:** 117-127 million, up 21-32% Y/Y
- **Total Revenue:** €6.35-€6.8 billion, up 21-29% Y/Y
- **Gross Margin:** 22.0-25.0%
- **Operating Profit/Loss:** €(180)-(€340) million

Our quarterly and annual guidance continues to include an estimate of the impact of social charges on our financial statements. This expense can vary materially from quarter to quarter based on fluctuations in the price of Spotify stock, which impacts our accruals for future expenses. Our forecast guidance ranges incorporate our best estimate of the impact of social charges on our income statement; however, material changes in the value of Spotify's stock price could have an outsized impact on our reported profit or loss for the quarter and/or the year.

SHARE REPURCHASE PROGRAM UPDATE

On November 5, 2018, Spotify announced a program to repurchase up to $1.0 billion of its publicly traded shares. During Q1, the Company repurchased 1,019,409 shares at a total cost of $138.2 million and an average cost of $135.58 per share. In total, the Company has repurchased 1,706,680 shares at a total cost of $225.5 million and an average cost of $132.13 per share.

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and via the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (844) 343-9039
Participant International Dial-In Number: (647) 689-5130
Conference ID: 4598466

CONTACTS

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ir@spotify.com

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Use of Non IFRS Measures

This shareholder letter includes references to the non-IFRS financial measures of EBITDA and Free Cash Flow. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, make investments, and for certain other activities that excludes certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. This shareholder letter also includes references to the non-IFRS financial measures of Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “seek,” “believe,” “estimate,” “predict,” “potential,” “continue,” “contemplate,” “possible,” and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; our dependence upon third-party licenses for sound recordings and musical compositions; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; competition for users and user listening time; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; ability to hire and retain key personnel; our ability to maintain, protect, and enhance our brand; risks associated with our international expansion, including difficulties obtaining rights to stream music on favorable terms; risks relating to the acquisition, investment, and disposition of companies or technologies; dilution resulting from additional share issuances; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls.

Other sections of this report describe additional risk factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor are we able to assess the impact of all of these risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. You should read this report and the documents that we have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different and worse from what we expect.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Revenue	1,511	1,495	1,139
Cost of revenue	1,138	1,096	856
Gross profit	**373**	**399**	**283**
Research and development	155	100	115
Sales and marketing	172	163	138
General and administrative	93	42	71
	420	**305**	**324**
Operating (loss)/income	**(47)**	**94**	**(41)**
Finance income	34	389	15
Finance costs	(156)	(2)	(154)
Finance income/(costs) - net	**(122)**	**387**	**(139)**
Loss before tax	**(169)**	**481**	**(180)**
Income tax (benefit)/expense	(27)	39	(11)
Net (loss)/income attributable to owners of the parent	**(142)**	**442**	**(169)**
(Loss)/earnings per share attributable to owners of the parent			
Basic	(0.79)	2.44	(1.01)
Diluted	(0.79)	0.36	(1.01)
Weighted-average ordinary shares outstanding			
Basic	180,613,539	181,067,994	167,778,952
Diluted	180,613,539	190,511,148	167,778,952

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	March 31, 2019	December 31, 2018
Assets		
Non-current assets		
Lease right-of-use assets	430	—
Property and equipment	235	197
Goodwill	424	146
Intangible assets	54	28
Long term investments	2,299	1,646
Restricted cash and other non-current assets	70	65
Deferred tax assets	10	8
	3,522	**2,090**
Current assets		
Trade and other receivables	391	400
Income tax receivable	2	2
Short term investments	660	915
Cash and cash equivalents	966	891
Other current assets	52	38
	2,071	**2,246**
Total assets	**5,593**	**4,336**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	3,834	3,801
Treasury shares	(198)	(77)
Other reserves	1,491	875
Accumulated deficit	(2,665)	(2,505)
Equity attributable to owners of the parent	**2,462**	**2,094**
Non-current liabilities		
Lease liabilities	555	—
Accrued expenses and other liabilities	1	85
Provisions	7	8
Deferred tax liabilities	61	2
	624	**95**
Current liabilities		
Trade and other payables	397	427
Income tax payable	4	5
Deferred revenue	273	258
Accrued expenses and other liabilities	1,298	1,076
Provisions	44	42
Derivative liabilities	491	339
	2,507	**2,147**
Total liabilities	**3,131**	**2,242**
Total equity and liabilities	**5,593**	**4,336**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Operating activities			
Net (loss)/income	(142)	442	(169)
Adjustments to reconcile net loss to net cash flows			
Depreciation of property and equipment	17	4	9
Amortization of intangible assets	4	4	2
Share-based payments expense	26	23	18
Finance income	(34)	(389)	(15)
Finance costs	156	2	154
Income tax (benefit)/expense	(27)	39	(11)
Other	8	15	1
Changes in working capital:			
Decrease/(increase) in trade receivables and other assets	35	(59)	15
Increase in trade and other liabilities	155	57	70
Increase in deferred revenue	13	17	9
Decrease in provisions	—	(7)	(3)
Interest paid on lease liabilities	(4)	—	—
Interest received	4	3	10
Income tax paid	(2)	(1)	(6)
Net cash flows from operating activities	**209**	**150**	**84**
Investing activities			
Business combinations, net of cash acquired	(288)	—	—
Purchases of property and equipment	(37)	(65)	(6)
Purchases of short term investments	(104)	(300)	(271)
Sales and maturities of short term investments	383	66	430
Change in restricted cash	1	(1)	(4)
Other	(4)	—	(10)
Net cash flows (used in)/from investing activities	**(49)**	**(300)**	**139**
Financing activities			
Payments of lease liabilities	(5)	—	—
Repurchases of ordinary shares	(126)	(72)	—
Proceeds from exercise of share options	33	17	39
Other	—	—	4
Net cash flow (used in)/from financing activities	**(98)**	**(55)**	**43**
Net increase in cash and cash equivalents	**62**	**(205)**	**266**
Cash and cash equivalents at beginning of the period	891	1,095	477
Net exchange gains/(losses) on cash and cash equivalents	13	1	(10)
Cash and cash equivalents at period end	**966**	**891**	**733**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended	
	March 31, 2019	March 31, 2018
IFRS revenue	1,511	1,139
Foreign exchange effect on 2019 revenue using 2018 rates	(33)	
Revenue excluding foreign exchange effect	1,478	
IFRS revenue year-over-year change %	33%	
Revenue excluding foreign exchange effect year-over-year change %	30%	
IFRS Premium revenue	1,385	1,037
Foreign exchange effect on 2019 Premium revenue using 2018 rates	(26)	
Premium revenue excluding foreign exchange effect	1,359	
IFRS Premium revenue year-over-year change %	34%	
Premium revenue excluding foreign exchange effect year-over-year change %	31%	
IFRS Ad-Supported revenue	126	102
Foreign exchange effect on 2019 Ad-Supported revenue using 2018 rates	(7)	
Ad-Supported revenue excluding foreign exchange effect	119	
IFRS Ad-Supported revenue year-over-year change %	24%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	17%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Net (loss)/income attributable to owners of the parent	(142)	442	(169)
Finance income/(costs) - net	122	(387)	139
Income tax (benefit)/expense	(27)	39	(11)
Depreciation and amortization	21	8	11
EBITDA	**(26)**	**102**	**(30)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Net cash flows from operating activities	209	150	84
Capital expenditures	(37)	(65)	(6)
Change in restricted cash	1	(1)	(4)
Free Cash Flow	**173**	**84**	**74**

July 31, 2019

Dear Shareholders,

On balance, the business outperformed our expectations in 2Q19, with Gross Margin up slightly Y/Y, despite our investments in podcasting, and with revenue growing more than 2.5x faster than the growth in operating expenses (ex. Direct Listing fees in Q2'18), Operating Margin was near breakeven for Q2.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q2 2018**	**Q1 2019**	**Q2 2019**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	180	217	232	29%	7%
Premium Subscribers	83	100	108	31%	9%
Ad-Supported MAUs	101	123	129	27%	5%
FINANCIALS (€M)					
Premium	1,150	1,385	1,502	31%	8%
Ad-Supported	123	126	165	34%	31%
Total Revenue	**1,273**	**1,511**	**1,667**	**31%**	**10%**
Gross Profit	329	373	434	32%	16%
Gross Margin	**25.8%**	**24.7%**	**26.0%**	**--**	**--**
Operating (Loss)/Income	**(90)**	**(47)**	**(3)**	**--**	**--**
Operating Margin	(7.1%)	(3.1%)	(0.2%)	--	--
Net cash flows from operating activities	30	209	90	200%	(57%)
Free Cash Flow[1]	**18**	**173**	**50**	**178%**	**(71%)**

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

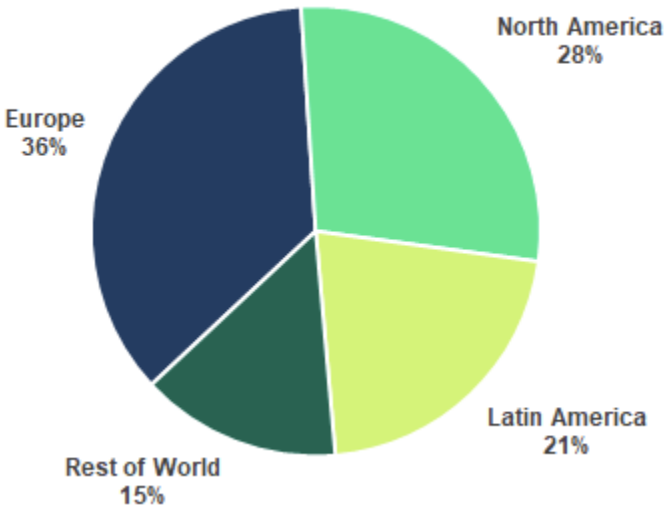
MONTHLY ACTIVE USERS ("MAUs")

Total MAUs grew 29% Y/Y to 232 million, outperforming the high end of our 222-228 million MAU guidance range.

Outperformance was broad based, with most of our geographic regions growing faster than our expectations. Timing of certain global music releases yielded some incremental benefit, as did our launch on PlayStation consoles across the Middle East and Latin America. Of note, two markets that have been long tied to physical music distribution, Germany and Japan, both hit milestones during Q2, performing materially better than forecast. Additionally, our newest market India performed well and in line with expectations. However, the most significant source of upside has been improvement in long-term retention due to our continued product innovation, particularly evident in our emerging geographies.

As a company, our goal is to continually innovate by testing and learning from new product launches. During Q2, we launched a number of new product initiatives across our major regions. Of note, we rolled out Spotify Lite more widely, and this offering is now available in 36 markets. We also expanded our beta test of Spotify Stations (our genre based, radio-like, lean-back experience) to the US in late May/early June. While these are two of the more recent high profile tests, we are constantly adding and expanding upon our offerings in select markets. Some of these may become global products and some may never leave beta. We believe that launching and innovating rapidly has led to a better overall user experience, and will continue to improve retention and consumer satisfaction. Some initiatives may work, some may not, but we believe the learnings from quick innovation will inform our future product road map. Speed of iteration will trump quality of iteration.

Total MAUs by Region

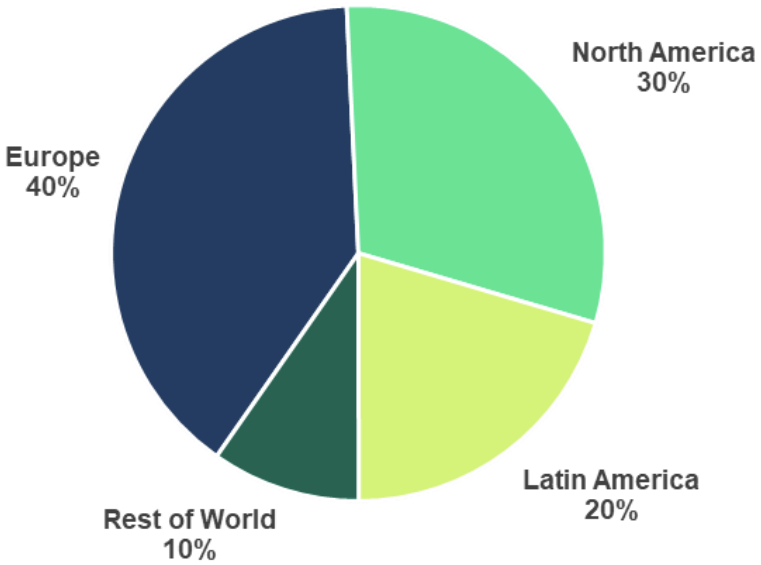


PREMIUM SUBSCRIBERS

We finished Q2 with 108 million Premium Subscribers globally, up 31% Y/Y but below the midpoint of our guidance range of 107-110 million. Intake from our bi-annual campaign was in line with our expectations, monthly churn declined both sequentially and Y/Y to a record low 4.6%, and our winback percentage on gross ads reaccelerated Q/Q. However, intake into our Student product was below plan. As we have discussed previously, our goal is to perform at roughly the 70th percentile of our guidance range and we missed on subs. That's on us. The good news is that the shortfall was execution related, rather than softness in the business, and we expect to make up the lost ground before year-end.

As mentioned above, our mid-year campaign kicked off in mid-May and ran through the end of June offering three months of Spotify Premium for $0.99 or equivalent. Intake was largely in line with our expectations, with notable strength seen across our emerging markets.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total revenue was €1,667 million in Q2, representing growth of 31% Y/Y. Premium revenue was €1,502 million of the total and grew 31% Y/Y, ahead of our expectations. Ad-Supported revenue was €165 million and grew 34% Y/Y, a meaningful acceleration of growth from Q1.

For the Premium business, average revenue per user ("ARPU") was €4.86 in Q2, down less than 1% Y/Y (down 2% excluding the impact from foreign exchange rates). Downward pressure on ARPU continues to moderate, and we continue to expect that ARPU declines through the

remainder of the year will be in the low single digits. As we mentioned last quarter, the declines in ARPU are a result of shifts in both product and geographic mix. Approximately 75% of the impact to ARPU is attributable to product mix changes, and the remainder a function of changes in geographic mix and other factors.

For the Ad-Supported business, Direct revenues outperformed our forecast primarily due to strength in the US. Audio was our fastest growing product for the third consecutive quarter, up 38% Y/Y, and Asia remained our fastest growing region.

Programmatic and Ad Studio revenue growth accelerated to 71% in Q2, and now account for approximately 30% of total Ad-Supported revenue. Programmatic growth in the US exceeded 50%, and our next 5 largest markets in aggregate increased triple digits Y/Y.

We are seeing increased demand for podcast advertising following our recent acquisitions and continued development of owned and exclusive non-music audio content. While still relatively small, we continue to expect fast revenue growth from podcasts through the remainder of 2019 and into 2020. Over time, our ambition is to reinvent the podcasting ad experience by building a new tech stack to enable targeting, measurement, and reporting capabilities like we have for our core Ad-Supported offering.

Gross Margin

Gross Margin was 26.0% in Q2, 50 bps above the high end of our guidance range of 23.5-25.5%. The performance was largely driven by better than expected streaming delivery costs as a result of efficiencies driven by usage optimization work, slower than anticipated release of original podcast content, and better than expected royalty margin resulting from slight differences in product and geographic mix.

Premium Gross Margin was 27.2% in Q2, up from 25.9% in Q1 and up 30 bps Y/Y. Ad-Supported Gross Margin was 15.8% in Q2, up seasonally from 11.3% in Q1 but down 50 bps Y/Y.

Operating Expenses / Income (Loss)

Operating expenses of €437 million in Q2 increased 4% Y/Y (12% Y/Y excluding the costs associated with our Direct Listing in Q2 2018). Operating Losses totaled €3 million yielding an Operating Margin of (0.2%), an improvement of 690 bps Y/Y (450 bps excluding the costs associated with our Direct Listing in Q2 2018). Our better than expected loss in the quarter was a result of higher Gross Profit and lower than expected spend across artist marketing, R&D, and G&A.

The growth in our share price in Q2 increased operating expenses more than plan because of higher social charges. The increased social expense was approximately 40 basis points higher than forecast due to the increase in our stock price during Q2. As a reminder, social costs are payroll taxes associated with employee salaries and benefits, including stock based compensation. We are subject to social taxes in several countries in which we operate, although

Sweden accounts for the bulk of the social costs. We don't forecast stock price changes in our guidance so upward or downward movements will impact our reported operating expenses.

IFRS 16

Starting January 1, 2019, we adopted the new lease accounting standards dictated by IFRS 16. This required certain leases which were accounted for as operating leases be treated as finance leases going forward. Certain leases were reclassified as assets and liabilities on the balance sheet which yielded increased depreciation and interest expense, offset by a reduction in rental expense. We recognized €10 million of lease liability interest expense in finance costs during the second quarter of 2019.

Free Cash Flow

We generated €90 million in net cash flows from operating activities and €50 million in Free Cash Flow in Q2. Each nearly tripled Y/Y. We maintain positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow, excluding the impact of capital expenditures associated with the build-out of new and existing offices in New York, London, Los Angeles, Stockholm, and Boston, among others. We paid out approximately €40 million associated with our office builds in Q2. Delays of certain projects have pushed certain costs originally anticipated in Q2 into future quarters. We expect to complete these projects over the next four quarters at a cost of roughly €190 million. We expect the level of spend to be relatively consistent with our Q2 cash outflow over the period.

We ended Q2 with €1.6 billion in cash and cash equivalents, restricted cash, and short term investments.

Share Repurchase Program Update

On November 5, 2018, Spotify announced a program to repurchase up to $1.0 billion of its publicly traded shares. During Q2, the Company repurchased 1,372,896 shares at a total cost of $186.9 million and an average cost of $136.14 per share. In total, the Company has repurchased 3,079,576 shares at a total cost of $412.4 million and an average cost of $133.82 per share.

Podcasts

Tens of millions of users are now streaming podcast content on a monthly basis, and more are discovering new forms of audio content each day. Our podcast audience grew more than 50% Q/Q and has nearly doubled since the start of the year. Our Content team continues to find and support engaging material across a wide range of genres and geographies. Q2 saw the launch of a number of original and/or exclusive titles like Jemele Hill is Unbothered and Riggle's Picks in the US, The Dark Side of… and The Two Princes from the recently acquired Parcast and Gimlet studios, respectively, Adam och Kompani in Sweden, and 3 Shots of Tequila in the UK. In addition to these titles, more than 30,000 new podcasts were delivered through our Spotify for Podcasters platform. We also launched a new product feature called Your Daily Drive to better serve the in-car listening experience that intertwines up to the minute news from partners

including NPR, The Wall Street Journal, and The New York Times with music specific to your listening history.

Additionally, we announced a multi-year partnership with President Barack Obama and Michelle Obama's production Company, Higher Ground, to produce exclusive content for the Spotify platform. The Obamas formed Higher Ground to produce powerful stories to entertain, inform, and inspire, and to lift up new, diverse voices in the entertainment industry. Under the Higher Ground partnership, President and Mrs. Obama will develop, produce, and lend their voices to select podcasts, connecting them to listeners around the world on wide-ranging topics.

Major Label License Renewals

We have reached agreement with two of our four major label partners on the renewal of our global sound recording licenses, and are in active discussions with the other two. This is the sixth round of label negotiations we've worked through in our thirteen year history and, while it is typically a long drawn-out process, it has become part of the normal cadence of the business.

Two-Sided Marketplace

We are making good progress on the development of a set of marketplace services and are actively building and testing prototype products with some label partners. We'll have more to say about these products if and when they commercially launch. We expect the launch to begin in early 2020.

During our Investor Day last year, we mentioned that the number of top tier artists (those representing the vast majority of streams) grew almost 30% in two years, from 16,000 artists to 22,000 at the time of the presentation. Today, that cohort has grown another 36% to more than 30,000. This figure signifies accelerating growth in discovery and is a leading indicator of success in our mission to enable more than 1 million artists to live off their work. We now have more than 400,000 creators and their teams using Spotify for Artists, one of our marketplace tools. This is up 33% YTD.

Q3 AND Q4 2019 OUTLOOK

These forward-looking statements reflect Spotify's expectations as of July 31, 2019 and are subject to substantial uncertainty.

Q3 2019 Guidance:

- **Total MAUs**: 240-245 million
- **Total Premium Subscribers:** 110-114 million
- **Total Revenue:** €1.57-€1.77 billion
- **Gross Margin:** 23.2-25.2%
- **Operating Profit/Loss:** €2-€(78) million

Q4 2019 Guidance:

- **Total MAUs**: 250-265 million
- **Total Premium Subscribers:** 120-125 million
- **Total Revenue:** €1.74-€1.94 billion
- **Gross Margin:** 23.7-25.7%
- **Operating Profit/Loss:** €(31)-€(131) million

Our quarterly guidance continues to include an estimate of the impact of social charges on our financial statements. This expense can vary materially from quarter to quarter based on fluctuations in the price of Spotify stock, which impacts our accruals for future expenses. Our forecast guidance ranges incorporate our best estimate of the impact of social charges on our income statement; however, material changes in the value of Spotify's stock price could have an outsized impact on our reported profit or loss for the quarter and/or the year.

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The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and via the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (866) 393-4306
Participant International Dial-In Number: (734) 385-2616
Conference ID: 9375306

CONTACTS

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Use of Non-IFRS Measures

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Forward Looking Statements

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Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; our dependence upon third-party licenses for sound recordings and musical compositions; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; competition for users and user listening time; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; ability to hire and retain key personnel; our ability to maintain, protect, and enhance our brand; risks associated with our international expansion, including difficulties obtaining rights to stream music on favorable terms; risks relating to the acquisition, investment, and disposition of companies or technologies; dilution resulting from additional share issuances; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls.

Other sections of this report describe additional risk factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor are we able to assess the impact of all of these risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. You should read this report and the documents that we have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different and worse from what we expect.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Six months ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue	1,667	1,511	1,273	3,178	2,412
Cost of revenue	1,233	1,138	944	2,371	1,800
Gross profit	**434**	**373**	**329**	**807**	**612**
Research and development	151	155	143	306	258
Sales and marketing	200	172	173	372	311
General and administrative	86	93	103	179	174
	437	**420**	**419**	**857**	**743**
Operating loss	**(3)**	**(47)**	**(90)**	**(50)**	**(131)**
Finance income	8	34	41	42	56
Finance costs	(64)	(156)	(343)	(220)	(497)
Finance income/(costs) - net	**(56)**	**(122)**	**(302)**	**(178)**	**(441)**
Loss before tax	**(59)**	**(169)**	**(392)**	**(228)**	**(572)**
Income tax expense/(benefit)	17	(27)	2	(10)	(9)
Net loss attributable to owners of the parent	**(76)**	**(142)**	**(394)**	**(218)**	**(563)**
Loss per share attributable to owners of the parent					
Basic and diluted	(0.42)	(0.79)	(2.20)	(1.21)	(3.25)
Weighted-average ordinary shares outstanding					
Basic and diluted	180,409,115	180,613,539	179,077,124	180,510,763	173,459,249

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	June 30, 2019	December 31, 2018
Assets		
Non-current assets		
Lease right-of-use assets	398	—
Property and equipment	243	197
Goodwill	464	146
Intangible assets	55	28
Long term investments	1,883	1,646
Restricted cash and other non-current assets	68	65
Deferred tax assets	10	8
	3,121	**2,090**
Current assets		
Trade and other receivables	429	400
Income tax receivable	2	2
Short term investments	586	915
Cash and cash equivalents	909	891
Other current assets	66	38
	1,992	**2,246**
Total assets	**5,113**	**4,336**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	3,854	3,801
Treasury shares	(365)	(77)
Other reserves	1,197	875
Accumulated deficit	(2,741)	(2,505)
Equity attributable to owners of the parent	**1,945**	**2,094**
Non-current liabilities		
Lease liabilities	517	—
Accrued expenses and other liabilities	11	85
Provisions	5	8
Deferred tax liabilities	2	2
	535	**95**
Current liabilities		
Trade and other payables	440	427
Income tax payable	4	5
Deferred revenue	290	258
Accrued expenses and other liabilities	1,327	1,076
Provisions	53	42
Derivative liabilities	519	339
	2,633	**2,147**
Total liabilities	**3,168**	**2,242**
Total equity and liabilities	**5,113**	**4,336**

Interim condensed consolidated statement of cash flows

(Unaudited)

(in € millions)

	Three months ended			Six months ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Operating activities					
Net loss	(76)	(142)	(394)	(218)	(563)
Adjustments to reconcile net loss to net cash flows					
Depreciation of property and equipment	17	17	4	34	13
Amortization of intangible assets	3	4	2	7	4
Share-based payments expense	37	26	23	63	41
Finance income	(8)	(34)	(41)	(42)	(56)
Finance costs	64	156	343	220	497
Income tax expense/(benefit)	17	(27)	2	(10)	(9)
Other	(10)	8	(3)	(2)	(2)
Changes in working capital:					
(Increase)/decrease in trade receivables and other assets	(50)	35	12	(15)	27
Increase in trade and other liabilities	75	155	78	230	148
Increase in deferred revenue	19	13	7	32	16
Increase/(decrease) in provisions	8	—	(4)	8	(7)
Interest paid on lease liabilities	(9)	(4)	—	(13)	—
Interest received	4	4	2	8	12
Income tax paid	(1)	(2)	(1)	(3)	(7)
Net cash flows from operating activities	**90**	**209**	**30**	**299**	**114**
Investing activities					
Business combinations, net of cash acquired	(36)	(288)	(9)	(324)	(9)
Purchases of property and equipment	(40)	(37)	(5)	(77)	(11)
Purchases of short term investments	(298)	(104)	(444)	(402)	(715)
Sales and maturities of short term investments	370	383	451	753	881
Change in restricted cash	—	1	(7)	1	(11)
Other	(3)	(4)	(3)	(7)	(13)
Net cash flows (used in)/from investing activities	**(7)**	**(49)**	**(17)**	**(56)**	**122**
Financing activities					
Payments of lease liabilities	(4)	(5)	—	(9)	—
Repurchases of ordinary shares	(157)	(126)	—	(283)	—
Proceeds from exercise of share options	20	33	57	53	96
Other	—	—	(2)	—	2
Net cash flow (used in)/from financing activities	**(141)**	**(98)**	**55**	**(239)**	**98**
Net (decrease)/increase in cash and cash equivalents	**(58)**	**62**	**68**	**4**	**334**
Cash and cash equivalents at beginning of the period	966	891	733	891	477
Net exchange gains/(losses) on cash and cash equivalents	1	13	9	14	(1)
Cash and cash equivalents at period end	**909**	**966**	**810**	**909**	**810**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
IFRS revenue	1,667	1,273	3,178	2,412
Foreign exchange effect on 2019 revenue using 2018 rates	(33)		(66)	
Revenue excluding foreign exchange effect	1,634		3,112	
IFRS revenue year-over-year change %	31%		32%	
Revenue excluding foreign exchange effect year-over-year change %	28%		29%	
IFRS Premium revenue	1,502	1,150	2,887	2,187
Foreign exchange effect on 2019 Premium revenue using 2018 rates	(25)		(51)	
Premium revenue excluding foreign exchange effect	1,477		2,836	
IFRS Premium revenue year-over-year change %	31%		32%	
Premium revenue excluding foreign exchange effect year-over-year change %	28%		30%	
IFRS Ad-Supported revenue	165	123	291	225
Foreign exchange effect on 2019 Ad-Supported revenue using 2018 rates	(8)		(15)	
Ad-Supported revenue excluding foreign exchange effect	157		276	
IFRS Ad-Supported revenue year-over-year change %	34%		29%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	28%		23%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net loss attributable to owners of the parent	(76)	(142)	(394)	(218)	(563)
Finance income/(costs) - net	56	122	302	178	441
Income tax expense/(benefit)	17	(27)	2	(10)	(9)
Depreciation and amortization	20	21	6	41	17
EBITDA	**17**	**(26)**	**(84)**	**(9)**	**(114)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net cash flows from operating activities	90	209	30	299	114
Capital expenditures	(40)	(37)	(5)	(77)	(11)
Change in restricted cash	—	1	(7)	1	(11)
Free Cash Flow	**50**	**173**	**18**	**223**	**92**

October 28, 2019

Dear Shareholders,

The business met or exceeded our expectations in 3Q19, with accelerating MAU growth, and better than expected (1) Subscriber growth, (2) Gross Margins, and (3) Operating Profit. For the 8th consecutive quarter, free cash flow was positive. We continue to see exponential growth in podcast hours streamed (up approximately 39% Q/Q) and early indications that podcast engagement is driving a virtuous cycle of increased overall engagement and significantly increased conversion of free to paid users. The correlations in our data sets are clearly apparent. We are working to prove causality. Overall, the business is performing strongly.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q3 2018**	**Q2 2019**	**Q3 2019**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	191	232	248	30%	7%
Premium Subscribers	87	108	113	31%	5%
Ad-Supported MAUs	109	129	141	29%	9%
FINANCIALS (€M)					
Premium	1,210	1,502	1,561	29%	4%
Ad-Supported	142	165	170	20%	3%
Total Revenue	**1,352**	**1,667**	**1,731**	**28%**	**4%**
Gross Profit	342	434	441	29%	1%
Gross Margin	**25.3%**	**26.0%**	**25.5%**	**--**	**--**
Operating (Loss)/Income	**(6)**	**(3)**	**54**	**--**	**--**
Operating Margin	(0.5%)	(0.2%)	3.1%	--	--
Net cash flows from operating activities	80	90	71	(11%)	(21%)
Free Cash Flow[1]	**33**	**50**	**48**	**45%**	**(4%)**

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

CFO TRANSITION

After playing a pivotal role in Spotify's listing and helping to establish Spotify as a public company, Barry McCarthy will retire from Spotify on January 15, 2020, stepping down as the company's CFO. Barry will be replaced by Paul Vogel, who is currently Spotify's VP of FP&A, Treasury and Investor Relations. Paul and Barry have worked together closely for the last 3 years. Pending shareholder approval, it is expected that Barry will be re-appointed to the Spotify Board of Directors, a role he held prior to joining the company as CFO.

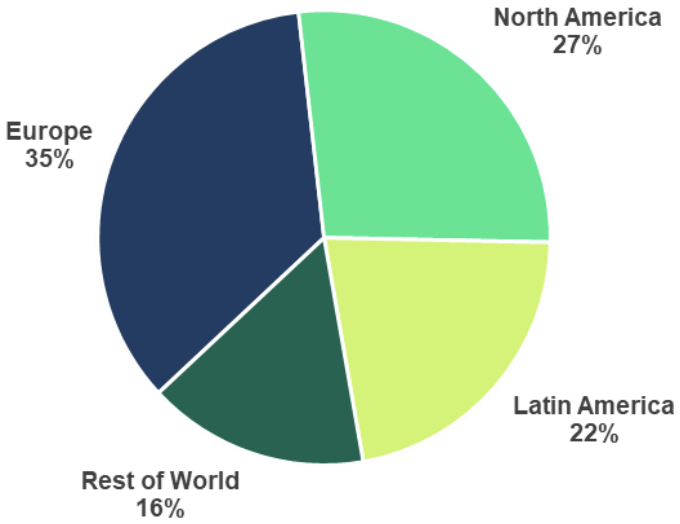
MONTHLY ACTIVE USERS ("MAUs")

Total MAUs grew 30% Y/Y to 248 million, outperforming the high end of our guidance.

Developing regions continue to be a significant driver of this outperformance. Growth in Latin America accelerated sequentially for the 2nd consecutive quarter as retention among newer users continues to improve. Southeast Asia remains our fastest growing region (excluding India), and Y/Y growth in Q3 accelerated 1400 bps vs. 3Q18. Of note, India outperformed our forecast by 30% this quarter. This momentum was driven by a number of factors including the launch of our first broad-based marketing campaign, "Sunte Ja" ("Listen On"), since launch in February.

As we discussed last quarter, a portion of the faster MAU growth is a result of our continued product innovation driving improvements in long-term retention. We rolled out a number of tests in Q3 with the goal of immersing new users in the product functionality faster. It's still early, but we are encouraged by the improvements we've seen in retention to date. Our belief is that a better onboarding experience leads to increased engagement, which leads to better retention, conversion, satisfaction, and ultimately, lifetime value. Expect us to continue to innovate like this in the future.

Total MAUs by Region



PREMIUM SUBSCRIBERS

We finished Q3 with 113 million Premium Subscribers globally, up 31% Y/Y. Net Subscriber growth exceeded our expectations and was led by strong performance in both Family Plan and Student Plan. All other product offerings were mostly in line with expectations.

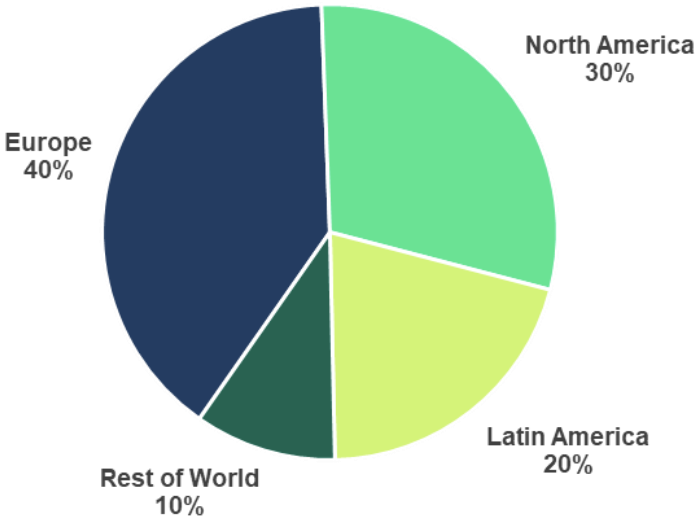
Within Family Plan we launched a slate of product upgrades, the first meaningful changes in some time. Subscribers now have access to new features designed specifically for families including parental controls to filter explicit content, a Family Mix playlist with personalized songs for the whole family, and a family hub where master account holders can easily manage all settings in one place.

Early September saw the expansion of our Duo pilot from the original 5 pilot markets into an additional 14 markets including most of Latin America. Additionally, we kicked off our annual "back-to-school" promotion of the Student Plan, a campaign that ran across 17 markets including the U.S. and parts of Europe. Finally, we announced a U.S. partnership with AT&T, which offers Spotify Premium as an add-on to select wireless plans, and offers a 6-month free trial to certain eligible bundle subscribers

In August, we launched a test of a new 90-day free trial offering to Standard and Student Plans. Family Plan was added in October. The test performed in line with plan and was not the reason Subscribers outperformed guidance in the quarter. We believe the 90-day offering will have positive benefit to growth and retention moving forward.

Churn improved 19 bps Y/Y and 7 bps sequentially.

Subscribers by Region



Competition

We continue to feel very good about our competitive position in the market. Relative to Apple, the publicly available data shows that we are adding roughly twice as many subscribers per month as they are. Additionally, we believe that our monthly engagement is roughly 2x as high and our churn is at half the rate. Elsewhere, our estimates imply that we continue to add more users on an absolute basis than Amazon. Our data also suggests that Amazon's user base skews significantly more to 'Ad-Supported' than 'Premium', and that average engagement on our platform is approximately 3x.

FINANCIAL METRICS

Revenue

Total revenue of €1,731 million grew 28% Y/Y in Q3. Consolidated revenue modestly beat our expectations with Premium outperforming and Ad-Supported weaker than forecast. Premium revenue was €1,561 million, up 29% Y/Y, while Ad-Supported revenue was €170 million, up 20% Y/Y.

For the Premium business, average revenue per user ("ARPU") of €4.67 in Q3 was down 1% Y/Y (down 3% excluding the impact from FX rates). The largest driver of ARPU decline continues to be product mix, although geographic mix also plays a role. As a reminder, approximately 75% of the impact to ARPU is attributable to product mix changes, and the remainder a function of changes in geographic mix and other factors.

For the Ad-Supported business, revenue growth of 20% Y/Y underperformed our expectations in Q3. Roughly 80% of the miss was related to self-inflicted implementation and integration

issues we experienced with the rollout of a new order management software to replace Google's Doubleclick Sales Manager which was sunset in July. This resulted in a combination of lost orders and under delivery of other orders totaling about €9 million of "lost" revenue. The balance of the revenue shortfall related to a slowdown in programmatic growth from 65% Y/Y in Q2 to 48% in Q3, mostly related to a slowdown in video PMP revenue. Programmatic revenue was sluggish early in the quarter but regained momentum during Q3. Podcasting revenue outperformed expectations with strong Y/Y growth but is still a relatively small slice of the total Ad-Supported business at less than 10% of total ad revenues.

Gross Margin

Gross Margin was 25.5% in Q3, 30 bps above the high end of our guidance of 23.2-25.2%. The largest contributor to outperformance stemmed from our core music gross margin. Royalty costs were more favorable than expected due to product and revenue mix. We also had lower content expense resulting from both lower overall spend and the slower rollout of developed shows. Similar to the trends we saw develop in Q2, Q3 saw continued efficiencies in streaming delivery and payment expense.

Premium Gross Margin was 26.5% in Q3, down seasonally from 27.2% in Q2 and up 40 bps Y/Y. Ad-Supported Gross Margin was 16.0% in Q3, up from 15.8% in Q2 but down 260 bps Y/Y.

Operating Expenses / Income (Loss)

Operating expenses of €387 million in Q3 increased 11% Y/Y, significantly less than the pace of revenue growth. Operating Profit was €54 million, an Operating Margin of 3.1%. Share price performance and the associated social charges were a significant driver of this outperformance versus expectations, but we would have been profitable even without this impact. Other drivers of our better than expected profit in the quarter were higher Gross Profit and lower than expected spend across artist marketing, promotion of original content, R&D, and G&A.

The decline in our share price in Q3 decreased operating expenses more than plan because of reduced social charges on stock-based compensation. The decreased social expense contributed approximately 160 basis points to our Operating Margin. As a reminder, these costs are payroll taxes associated with stock based compensation. We are subject to social taxes in several countries in which we operate, although Sweden accounts for the bulk of the social costs. We don't forecast stock price changes in our guidance so upward or downward movements will impact our reported operating expenses.

Podcasts

We continue to see exponential growth in podcast hours streamed (39% Q/Q for 3Q19), albeit off of a small base. Podcast adoption has reached almost 14% of total MAUs. The U.S. accounts for the largest share of podcast streams but share of listening is higher and growing faster in several European countries. Podcast engagement is clearly a growing global phenomenon.

For music listeners who do engage in podcasts, we are seeing increased engagement and increased conversion from Ad-Supported to Premium. Some of the increases are extraordinary, almost too good to be true. We're working to clean up the data to prove causality, not just correlation. Still, our intuition is the data is more right than wrong, and that we're onto something special. So expect us to lean into our early success with podcasting and to share more insights with you when we've established causality.

We continue to ship updates to our podcast experience, and now have more than 500,000 podcast titles available on the platform. Q3 saw the launch of 22 original and several other exclusive titles from Spotify Studios such as The Ringer: The Hottest Take and The Conversation with Amanda de Cadenet in the U.S. We also announced the release of a number of Gimlet and Parcast originals, including Gimlet's The Clearing and The Journal, as well as Natural Disasters, Medical Mysteries, and the Summer of '69 from Parcast Studios. We are continuously working to expand our global podcast library with the introduction of El Primer Café in Colombia, and London, Actually in the UK.

Two-Sided Marketplace

At our Investor Day presentation in March 2018 we said the goal of our marketplace strategy is to harness Spotify's ability to drive discovery to connect artists with fans on a scale that has never before existed with the goal of enabling 1 million artists to live off of their work.

The strategy has been about going from a one-size fits all model to a model that better fits the various types of content and creators on our platform. Through a combination of tools, services, and programs we will be able to serve creators better and build a better business for Spotify by leveraging our demand creation capabilities. So Marketplace is about meeting the needs of creator teams to create art, engage with, grow, and better monetize their fanbase.

These initiatives drive both revenue growth and content cost savings. We expect to give more detail on the financial benefits of the Marketplace and the impact on 2020 guidance on the 4Q19 earnings report.

Recent highlights of positive developments with our marketplace strategy include:

- **Spotify for Artists** - Valuable analytics, identity management, and promotion tools with more than 465,000 monthly active artists, up 365% from the 100,000 announced at Investor Day. These monthly active artists account for ~80% of the streams on Spotify. Key recent additions to the feature suite is Canvas - a tool that enables artist teams to add looping visuals to their tracks. Many artists have seen substantial uplift in their streams by using this tool.
- **Sponsored Recommendations** - Available to select major and independent label partners as part of our recently announced paid beta in the U.S., this is Spotfy's first cost per click ad product which leverages our listener graph of music tastes to promote new releases to free and paying users.

- **SoundBetter** - In September, we announced the acquisition of SoundBetter, a music production marketplace for artists, producers, and musicians with 180,000 registered users.

Lease Accounting
Starting January 1, 2019, we adopted the new lease accounting standards dictated by IFRS 16. This required certain leases which were accounted for as operating leases be treated as finance leases going forward. Certain leases were reclassified as assets and liabilities on the balance sheet which yielded increased depreciation and interest expense, offset by a reduction in rental expense. We recognized €9 million of lease liability interest expense in finance costs during the third quarter of 2019.

Free Cash Flow
We generated €71 million in net cash flows from operating activities and €48 million in Free Cash Flow in Q3. We maintain positive working capital dynamics, and our goal is to sustain and grow Free Cash Flow, excluding the impact of capital expenditures associated with the build-out of new and existing offices. We paid out approximately €26 million associated with our office builds in Q3. We expect to complete office build-out projects in Stockholm, São Paulo, and Boston in Q4 2019. We expect to complete the remaining projects over the next four quarters at a cost of roughly €165 million.

We ended Q3 with €1.6 billion in cash and cash equivalents, restricted cash, and short term investments.

Share Repurchase Program Update
On November 5, 2018, Spotify announced a program to repurchase up to $1.0 billion of its publicly traded shares. During Q3, the Company repurchased 1,130,675 shares at a total cost of $142.1 million and an average cost of $125.68 per share. Through September 30, the Company has repurchased 4,210,251 shares at a total cost of $554.5 million and an average cost of $131.71 per share. This total cost is approximately equal to the $552 million in cumulative Free Cash Flow generated by Spotify since the start of 2018.

Q4 2019 OUTLOOK

These forward-looking statements reflect Spotify's expectations as of October 28, 2019 and are subject to substantial uncertainty. We are reiterating our previous ranges with the exception of Total MAU, which we are adjusting higher due to continued outperformance.

Q4 2019 Guidance:

- **Total MAUs**: 255-270 million
- **Total Premium Subscribers:** 120-125 million
- **Total Revenue:** €1.74-€1.94 billion
- **Gross Margin:** 23.7-25.7%
- **Operating Profit/Loss:** €(31)-€(131) million

Given the performance of Spotify's stock over the last twelve months, let's consider today's guidance from a slightly broader perspective. Look back to March 2018 before our direct listing. Compare the Street's expectations then for FY 2019 to our guidance now. The 12 month target stock price then was $181 and the consensus forecast (the average forecast of the 18 equity research analysts who covered us prior to 1Q18 earnings) for 2019 was actually lower than today's guidance for this year's results. The business is outperforming and the stock price is down 33% vs. the consensus. Sometimes the stock price reflects the performance of the business and sometimes it doesn't. But eventually, it always does.

	Street Consensus[2]	**Spotify Guidance**
MAU[3] (M)	**256**	**266**
Subscribers (M)	**122**	**123**
Revenue (€M)	**6,610**	**6,755**
Gross Margin	**25.9%**	**25.1%**
Operating Loss (€M)	**(195)**	**(133)**
Stock price (target/actual)	**$181**	**NA**

Note: Spotify guidance based on actuals for Q3 YTD + 70th percentile of guidance for 4Q19

[2] Street consensus for FY 2019 prior to May 2, 2018 (date of 1Q18 earnings call)

[3] Adjusted for definitional change to MAU

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Barry McCarthy, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and via the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (844) 343-9039
Participant International Dial-In Number: (647) 689-5130
Conference ID: 4774562

CONTACTS

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Use of Non-IFRS Measures

To supplement our interim condensed consolidated financial statements, which are prepared and presented in accordance with IFRS, we use the following non-IFRS financial measures: Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect, Ad-Supported revenue excluding foreign exchange effect, EBITDA, and Free Cash Flow. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. However, Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, to make investments, and for certain other activities that exclude certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. For more information on these non-IFRS financial measures, please see “Reconciliation of IFRS to Non-IFRS Results” table.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “seek,” “believe,” “estimate,” “predict,” “potential,” “continue,” “contemplate,” “possible,” and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; our dependence upon third-party licenses for sound recordings and musical compositions; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; competition for users and user listening time; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services;

changes in legislation or governmental regulations affecting us; ability to hire and retain key personnel; our ability to maintain, protect, and enhance our brand; risks associated with our international expansion, including difficulties obtaining rights to stream music on favorable terms; risks relating to the acquisition, investment, and disposition of companies or technologies; dilution resulting from additional share issuances; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls.

Other sections of this report describe additional risk factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor are we able to assess the impact of all of these risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. You should read this report and the documents that we have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different and worse from what we expect.

Interim condensed consolidated statement of operations

(Unaudited)

(in € millions, except share and per share data)

	Three months ended			Nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue	1,731	1,667	1,352	4,909	3,764
Cost of revenue	1,290	1,233	1,010	3,661	2,810
Gross profit	**441**	**434**	**342**	**1,248**	**954**
Research and development	136	151	135	442	393
Sales and marketing	178	200	146	550	457
General and administrative	73	86	67	252	241
	387	**437**	**348**	**1,244**	**1,091**
Operating income/(loss)	**54**	**(3)**	**(6)**	**4**	**(137)**
Finance income	226	8	10	268	66
Finance costs	(10)	(64)	(85)	(230)	(582)
Share in losses of associate	—	—	(1)	—	(1)
Finance income/(costs) - net	**216**	**(56)**	**(76)**	**38**	**(517)**
Income/(loss) before tax	**270**	**(59)**	**(82)**	**42**	**(654)**
Income tax expense/(benefit)	29	17	(125)	19	(134)
Net income/(loss) attributable to owners of the parent	**241**	**(76)**	**43**	**23**	**(520)**
Earnings/(loss) per share attributable to owners of the parent					
Basic	1.34	(0.42)	0.24	0.13	(2.96)
Diluted	0.36	(0.42)	0.23	0.09	(2.96)
Weighted-average ordinary shares outstanding					
Basic	179,863,596	180,409,115	180,510,524	180,292,670	175,835,503
Diluted	188,477,554	180,409,115	188,120,122	185,788,598	175,835,503

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	September 30, 2019	December 31, 2018
Assets		
Non-current assets		
Lease right-of-use assets	486	—
Property and equipment	270	197
Goodwill	489	146
Intangible assets	58	28
Long term investments	1,678	1,646
Restricted cash and other non-current assets	68	65
Deferred tax assets	9	8
	3,058	**2,090**
Current assets		
Trade and other receivables	386	400
Income tax receivable	2	2
Short term investments	640	915
Cash and cash equivalents	877	891
Other current assets	73	38
	1,978	**2,246**
Total assets	**5,036**	**4,336**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	3,884	3,801
Treasury shares	(494)	(77)
Other reserves	1,052	875
Accumulated deficit	(2,500)	(2,505)
Equity attributable to owners of the parent	**1,942**	**2,094**
Non-current liabilities		
Lease liabilities	618	—
Accrued expenses and other liabilities	13	85
Provisions	6	8
Deferred tax liabilities	1	2
	638	**95**
Current liabilities		
Trade and other payables	519	427
Income tax payable	8	5
Deferred revenue	308	258
Accrued expenses and other liabilities	1,259	1,076
Provisions	8	42
Derivative liabilities	354	339
	2,456	**2,147**
Total liabilities	**3,094**	**2,242**
Total equity and liabilities	**5,036**	**4,336**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Operating activities					
Net income/(loss)	241	(76)	43	23	(520)
Adjustments to reconcile net income/(loss) to net cash flows					
Depreciation of property and equipment and lease right-of-use assets	17	17	4	51	17
Amortization of intangible assets	5	3	3	12	7
Share-based payments expense	31	37	24	94	65
Finance income	(226)	(8)	(10)	(268)	(66)
Finance costs	10	64	85	230	582
Income tax expense/(benefit)	29	17	(125)	19	(134)
Other	1	(10)	(5)	(1)	(7)
Changes in working capital:					
Decrease/(increase) in trade receivables and other assets	2	(50)	(29)	(13)	(2)
Increase in trade and other liabilities	2	75	86	232	234
Increase in deferred revenue	12	19	5	44	21
(Decrease)/increase in provisions	(44)	8	(3)	(36)	(10)
Interest paid on lease liabilities	(12)	(9)	—	(25)	—
Interest received	4	4	3	12	15
Income tax paid	(1)	(1)	(1)	(4)	(8)
Net cash flows from operating activities	**71**	**90**	**80**	**370**	**194**
Investing activities					
Business combinations, net of cash acquired	(7)	(36)	—	(331)	(9)
Purchases of property and equipment	(26)	(40)	(49)	(103)	(60)
Purchases of short term investments	(268)	(298)	(54)	(670)	(769)
Sales and maturities of short term investments	245	370	279	998	1,160
Change in restricted cash	3	—	2	4	(9)
Other	(4)	(3)	(22)	(11)	(35)
Net cash flows (used in)/from investing activities	**(57)**	**(7)**	**156**	**(113)**	**278**
Financing activities					
Proceeds from exercise of share options	30	20	50	83	146
Proceeds from the issuance of warrants	15	—	—	15	—
Repurchases of ordinary shares	(125)	(157)	—	(408)	—
Payments of lease liabilities	(4)	(4)	—	(13)	—
Lease incentives received	15	—	—	15	—
Other	(4)	—	(1)	(4)	1
Net cash flow (used in)/from financing activities	**(73)**	**(141)**	**49**	**(312)**	**147**
Net (decrease)/increase in cash and cash equivalents	**(59)**	**(58)**	**285**	**(55)**	**619**
Cash and cash equivalents at beginning of the period	909	966	810	891	477
Net exchange gains/(losses) on cash and cash equivalents	27	1	—	41	(1)
Cash and cash equivalents at period end	**877**	**909**	**1,095**	**877**	**1,095**

Calculation of basic and diluted earnings/(loss) per share

(Unaudited)

(in € millions, except share and per share data)

	Three months ended			Nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Basic earnings/(loss) per share					
Net income/(loss) attributable to owners of the parent	241	(76)	43	23	(520)
Share used in computation:					
Weighted-average ordinary shares outstanding	179,863,596	180,409,115	180,510,524	180,292,670	175,835,503
Basic earnings/(loss) per share attributable to owners of the parent	**1.34**	**(0.42)**	**0.24**	**0.13**	**(2.96)**
Diluted earnings/(loss) per share					
Net income/(loss) attributable to owners of the parent	241	(76)	43	23	(520)
Fair value gains on certain warrants	(173)	—	—	(7)	—
Net income/(loss) used in the computation of diluted earnings/(loss) per share	**68**	**(76)**	**43**	**16**	**(520)**
Shares used in computation:					
Weighted-average ordinary shares outstanding	179,863,596	180,409,115	180,510,524	180,292,670	175,835,503
Warrants	3,867,477	—	—	563,692	—
Share options	4,436,345	—	7,423,136	4,680,634	—
Restricted stock units	157,623	—	141,681	125,197	—
Restricted stock awards	50,623	—	44,781	47,223	—
Other contingently issuable shares	101,890	—	—	79,182	—
Diluted weighted-average ordinary shares	**188,477,554**	**180,409,115**	**188,120,122**	**185,788,598**	**175,835,503**
Diluted (loss)/earnings per share attributable to owners of the parent	**0.36**	**(0.42)**	**0.23**	**0.09**	**(2.96)**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
IFRS revenue	1,731	1,352	4,909	3,764
Foreign exchange effect on 2019 revenue using 2018 rates	(30)		(96)	
Revenue excluding foreign exchange effect	1,701		4,813	
IFRS revenue year-over-year change %	28%		30%	
Revenue excluding foreign exchange effect year-over-year change %	26%		28%	
IFRS Premium revenue	1,561	1,210	4,448	3,397
Foreign exchange effect on 2019 Premium revenue using 2018 rates	(24)		(75)	
Premium revenue excluding foreign exchange effect	1,537		4,373	
IFRS Premium revenue year-over-year change %	29%		31%	
Premium revenue excluding foreign exchange effect year-over-year change %	27%		29%	
IFRS Ad-Supported revenue	170	142	461	367
Foreign exchange effect on 2019 Ad-Supported revenue using 2018 rates	(6)		(21)	
Ad-Supported revenue excluding foreign exchange effect	164		440	
IFRS Ad-Supported revenue year-over-year change %	20%		26%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	15%		20%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended			Nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income/(loss) attributable to owners of the parent	241	(76)	43	23	(520)
Finance income/(costs) - net	(216)	56	76	(38)	517
Income tax expense/(benefit)	29	17	(125)	19	(134)
Depreciation and amortization	22	20	7	63	24
EBITDA	**76**	**17**	**1**	**67**	**(113)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net cash flows from operating activities	71	90	80	370	194
Capital expenditures	(26)	(40)	(49)	(103)	(60)
Change in restricted cash	3	—	2	4	(9)
Free Cash Flow	**48**	**50**	**33**	**271**	**125**

February 5, 2020

Dear Shareholders,

The business continued to perform well in 4Q19. For the third consecutive quarter, total MAU growth accelerated while Subscribers, Revenue, and Gross Margin all met or exceeded our expectations. We continue to see exponential growth in podcast hours streamed (up approximately 200% Y/Y) and are now seeing clear indications that podcast usage is driving increased overall engagement and retention. We have seen early indications that our investments in podcasts are having a positive impact on conversion of free to paid users. Overall, the business performance remains strong, and we believe we are well positioned for growth in the coming year.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q4 2018**	**Q3 2019**	**Q4 2019**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	207	248	271	31%	9%
Premium Subscribers	96	113	124	29%	10%
Ad-Supported MAUs	116	141	153	32%	9%
FINANCIALS (€M)					
Premium	1,320	1,561	1,638	24%	5%
Ad-Supported	175	170	217	23%	27%
Total Revenue	**1,495**	**1,731**	**1,855**	**24%**	**7%**
Gross Profit	399	441	474	19%	8%
Gross Margin	**26.7%**	**25.5%**	**25.6%**	--	--
Operating (Loss)/Income	**94**	**54**	**(77)**	--	--
Operating Margin	6.3%	3.1%	(4.1%)	--	--
Net cash flows from operating activities	150	71	203	35%	186%
Free Cash Flow[1]	**84**	**48**	**169**	**101%**	**252%**

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

2020 OUTLOOK

With three consecutive quarters of accelerating MAU growth and another year of record net subscriber additions behind us, we are enthusiastic about the underlying trends in the business. From history, we know that MAU growth tends to be a leading indicator of future subscriber additions, which is then followed by revenue gains in both premium and ad-supported users. While we believe these trends will continue moving forward, we have been appropriately conservative regarding our 2020 guidance as our data, particularly around the benefits from podcasts, is still reasonably new.

On the cost side, we have been consistent in our messaging. Any decision to accelerate our investment in podcast and technology spend should be viewed as an indication of our belief that our strategy is having tangible results. We have gained even more confidence in the data, particularly around the benefits from podcasts, and as a result, 2020 will be an investment year.

MONTHLY ACTIVE USERS (“MAUs”)

Total MAUs grew 31% Y/Y to 271 million, outperforming the high end of our guidance.

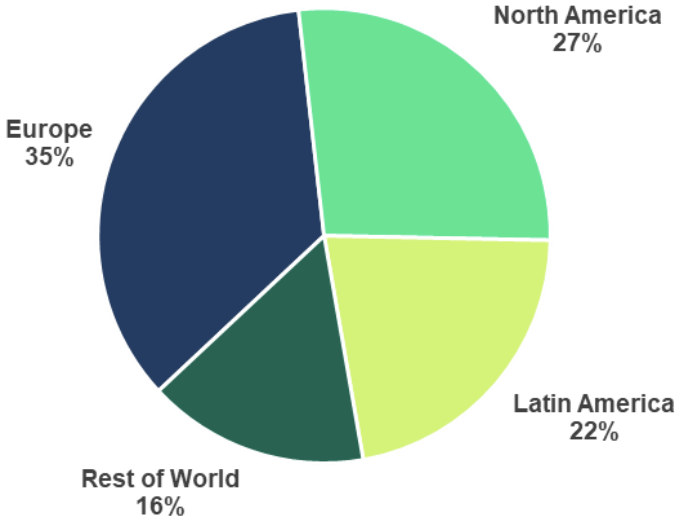
For the third straight quarter, we have outperformed the high end of our MAU guidance range as top-of-funnel growth continues to accelerate. Growth re-accelerated across our 3 largest regions (Europe, North America, and Latin America), while the Rest of World segment remains our fastest growing. Of note, North America saw the fastest quarterly growth since 4Q’18. Seeing a re-acceleration in user growth, at our scale, is a strong signal to us of the health of our business. We know, from history, that strong MAU trends are a harbinger of future subscriber and financial growth.

In previous quarters, we’ve spoken about continued innovation in the product experience. Some of these improvements yield immediate results, while others can take quarters to materialize into tangible benefits. With that in mind, in the last few quarters we have seen steady improvements in retention, in some cases significantly. Importantly, each of our top 20 markets has seen improvement in retention year on year. While further improvements are not explicitly assumed in our future expectations (2020 guidance below), our belief is that continued enhancements to the product and further growth in podcasts will lead to even better retention, higher conversion, and ultimately, higher lifetime value. We are seeing this thesis play out in our results to date, and you should expect us to continue to invest in product and innovation if these trends persist.

Results in Q4 were bolstered by our promotional activity. On December 5, 2019, we launched the 5th annual year-end Spotify Wrapped campaign. The campaign ran through the end of the month and was enhanced in several key ways this year. Importantly, we delivered the consumer experience via the native mobile app (in addition to a website hosted on Spotify.com) for the first time, expanded the reach of the campaign to 21 markets globally, highlighted insights from the

past decade (in addition to the year), and provided a personalized Wrapped experience to all Spotify creators (inclusive of podcasters). More than 60 million users engaged with Wrapped content this year, spurring more than 40 million shares of Wrapped stories and cards and more than 6.5 billion streams from Year/Decade Top Songs playlists.

Total MAUs by Region



PREMIUM SUBSCRIBERS

We ended the year with 124 million Premium Subscribers globally, up 29% Y/Y and ahead of forecast. This was the highest net add quarter we've ever experienced, and the fastest we've ever added 10 million subscribers. During Q4 we expanded our '3 months on us' offer to new Family Plan subscribers, in addition to previous offers for Individual and Student.

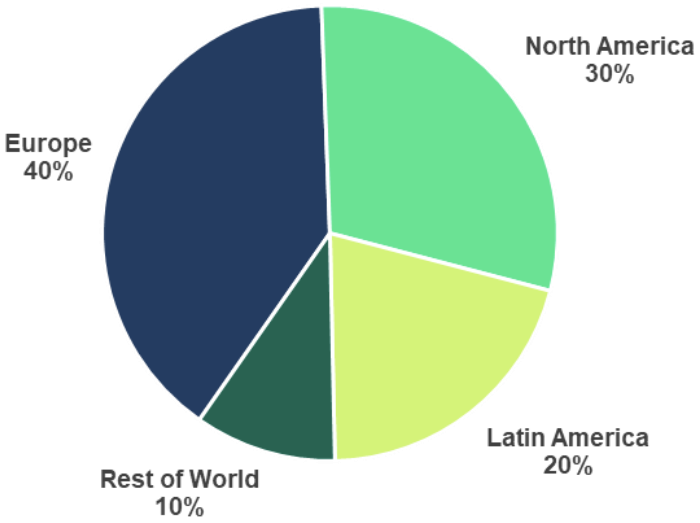
Q4 saw the continuation of our Google Home partnership whereby new and existing subscribers to our Individual, Student, and Family Plans in the US could claim a free Google Home Mini. To date, this partnership has driven a meaningful amount of incremental subscribers. In addition to Google, we also launched two new partnerships and renewed one existing partnership during Q4: the UK's largest electronics retailer Curry's PC World, Microsoft's gaming subscription XBOX Game Pass in the US and UK, and a renewal with one of France's largest telco operators, Bouygues. Each deal features a 6-month free trial to Spotify Premium for eligible participants.

Once again, we ran our annual year-end promotional Holiday Campaign. This year's marketing campaign focused on our '3 months on us' intro offer for new users, as well as a win-back offer for returning customers. We finished the year strong, boosted by strong Free MAU growth, the

success of the Wrapped campaign, and higher than expected seasonality lift over the holiday period.

Churn improved more than 80 bps Y/Y and more than 50 bps sequentially. However, it's worth noting that the change in our promotional strategy had a positive impact.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total revenue of €1,855 million grew 24% Y/Y in Q4. Consolidated revenue was in line with our expectations with Premium slightly better and Ad-Supported slightly weaker than forecast. Premium revenue was €1,638 million, up 24% Y/Y, while Ad-Supported revenue was €217 million, up 23% Y/Y.

For the Premium business, average revenue per user ("ARPU") of €4.65 in Q4 was down 5% Y/Y (down 6% excluding the impact from FX rates). A significant portion of this decline was driven by the extension of the free trial period across our entire product suite in the quarter. Excluding the impact of Trials & Campaigns, ARPU would have declined 2% Y/Y as a result of continued mix shifts in product and geography.

Ad-Supported revenue growth of 23% Y/Y was an acceleration from Q3, but still fell slightly short of expectations. We had a slower start than usual in Q4, particularly in our Direct business, following some of the technical issues we had implementing a new order management system last quarter. By December, momentum in bookings had returned to normal levels but wasn't enough to compensate for the slower start to the quarter. With that said, we

still saw double digit rates of growth across each of our Direct, Programmatic, and Ad Studio channels. During Q4 we introduced Dynamic Ad Breaks ("DAB") in the US and UK which added significant sellable inventory. We plan to expand this capability into 10 more markets in Q1 and will continue to scale these capabilities as content becomes increasingly available over our total geographic footprint.

Gross Margin

Gross Margin was 25.6% in Q4, toward the high end of our guidance range. The largest driver of outperformance stemmed from slight improvement in the non-royalty component of Gross Margin, including payment fees, streaming delivery costs, and other miscellaneous variances. Royalty costs were in line with our expectations. Q4 2019 Gross Margin compares with a 26.7% Gross Margin in 2018. As a reminder, our Q4 2018 Gross Margin included a number of one-time benefits. Excluding those non-recurring items, the Gross Margin in Q4 2018 would have been 25.8%

Premium Gross Margin was 26.9% in Q4, up from 26.5% in Q3, but down 40 bps Y/Y. Ad-Supported Gross Margin was 15.4% in Q4, down from 16.0% in Q3 and down 670 bps Y/Y.

Operating Expenses / Income (Loss)

Operating expenses of €551 million in Q4 increased 80% Y/Y, largely driven by higher than expected social charges resulting from an increase in our share price. Excluding the higher than planned social charges, Operating Loss would have finished slightly better than forecast as a result of the slight outperformance in Gross Profit.

As a reminder, social charges are payroll taxes associated with stock based compensation. We are subject to social taxes in several countries in which we operate, although Sweden accounts for the bulk of the social costs. We don't forecast stock price changes in our guidance so upward or downward movements will impact our reported operating expenses. In Q4, the increase in our share price resulted in social charges that were more than €20 million higher than planned.

Podcasts

We continue to see exponential growth in podcast consumption. More than 16% of our Total MAUs now engage with Podcast content, and consumption hours in Q4 have grown nearly 200% Y/Y.

Today, we now have more than 700,000 podcast titles available on the platform. We added personalized elements to the podcast experience in Q4 with the launch of Your Daily Podcasts in several of our priority podcast markets including the US, UK, Germany, Sweden, Mexico, Brazil, Canada, Australia, and New Zealand. During Q4, we also released 26 shows in markets outside of the US to capitalize on the growing global trend of consumption. These included, but were not limited to, Hypnosis Radio in Japan, Fausto in Mexico (which quickly became the #1 podcast in the country), an adaptation of Parcast title Cults for German audiences called SEKTEN & KULTE, and our first three original podcasts in India: 22 Yarns, Love Aaj Kal, and

Bhaskar Bose. We also held the first-ever Spotify for Podcasters summit in Brazil, a 2-day event in Sao Paulo where we welcomed more than 1,000 creators with 32 panels and 11 workshops. After previewing with the US audience, we also expanded the Your Daily Drive concept to encompass users in Germany and Sweden in Q4.

As we mentioned last quarter, we have a growing body of evidence showing that there are significant benefits to engagement, retention, and conversion of users from Ad-Supported to Premium stemming from consumption of Podcast content. We have seen benefits to retention on the order of several hundred basis points, which is a material change on a retention curve, for users that engage with spoken word content relative to those that haven't, and early data indicates that these users are more likely to convert to Premium over time. However, there is still work to be done to model the future impact we expect podcasts to have on our metrics, and while we firmly believe these benefits will begin to flow through the model over time, we have been cautious with respect to including the impact of these efforts to our 2020 guidance. Expect us to update our views on this front as we gather and process more data over the course of the year, but we have been extremely pleased with the underlying trends.

Two-Sided Marketplace

Our two-sided marketplace strategy means we're not just serving listeners; we're also building tools and services for the creator community — everyone from artists and songwriters to publishers and labels to podcasters and storytellers.

The goal of our creator-facing marketplace strategy is to harness Spotify's ability to drive discovery to connect artists with fans on a scale that has never before existed with the goal of enabling 1 million artists to live off of their work. Specifically, Marketplace is about meeting the needs of creator teams to create art, engage with, grow, and better monetize their fanbase.

These initiatives drive a combination of revenue through selling paid marketplace tools to creators and their teams, as well as content cost savings through negotiating more favorable licensing rates with certain segments of content suppliers. For the full year 2019 paid marketplace tools combined with strategic licensing contributed more than €30 million in Gross Profit. As adoption picks up among more of our partners, we expect the growth rate to increase and become a meaningful source of Gross Profit over the next few years. For 2020, we expect growth in Marketplace contribution to be in excess of 50%.

Recent highlights of positive developments with our marketplace strategy include:

- **Spotify for Artists:** Launched the year-end "Artist Wrapped" campaign to drive engagement among existing Spotify for Artists users and acquire new ones. Artist Wrapped is the industry version of our consumer 2019 Wrapped campaign. It is a tailor-made experience for artist teams that summarizes the highlights of their year on Spotify and how listeners engaged with their work. There are now over 500,000 monthly active artists and creators on Spotify for Artists, and we expect the platform to be the main entry point for most of our paid creator tools.

- **Sponsored Recommendations:** As discussed in previous earnings calls, we see native content promotion as an area of high value to both artists and listeners and also as a new higher margin revenue stream for Spotify. Our sponsored new release recommendation is targeted to both Ad-Supported and Premium listeners on mobile and is a personalized reminder for users to stream an album that we believe they'll like. For labels and artists, this tool is an opportunity to reach the right audience at the right time in ways they can't with other platforms. In October 2019, we launched the Beta in the United States. Our primary goal with the Beta in Q4 was learning, keeping a close eye on listener and customer feedback to evaluate product-market fit. Average click-through rates and average listener conversion have been at consistently high rates (+30% for each). Additionally, sponsored recommendations have had no noticeable effect on our Premium retention, with feedback suggesting users find the content relevant and valuable. Early indications on the artist side are also very encouraging. Not only can sponsored recommendations have a significant impact on awareness, but this tool is proving to be very effective in ensuring an artist seamlessly finds its audience. Compared to a control group, we have seen sponsored recommendations drive a material increase in both saves and plays. For example, the independent distributor, Caroline, leveraged sponsored recommendations for the release of their highly anticipated fourth album from Trippie Redd, which opened at #1.

- **Other -** We will continue to grow and expand the marketplace strategy, including with services such as **Soundtrap and Soundbetter.** As an example, while still early days, Soundtrap doubled its paying subscriber base in Q4. Expect more innovation of products over the coming years.

Lease Accounting

Starting January 1, 2019, we adopted the new lease accounting standards dictated by IFRS 16. This required certain leases which were accounted for as operating leases be treated as finance leases going forward. Certain leases were reclassified as assets and liabilities on the balance sheet which yielded increased depreciation and interest expense, offset by a reduction in rental expense. We recognized €10 million of lease liability interest expense in finance costs during the fourth quarter of 2019.

Free Cash Flow

We generated €203 million in net cash flows from operating activities and €169 million in Free Cash Flow in Q4. We maintain positive working capital and expect similar dynamics in FY 2020, excluding the impact of capital expenditures associated with the build-out of new and existing offices and timing of certain payments to rights holders. We paid out approximately €32 million associated with our office builds in Q4.

In Q4, our quarterly free cash was boosted by a shift in timing with respect to a couple of payments. With some licensors, the timing of certain payments can be irregular. As a result, several payments have been shifted into Q1 of 2020 and as a result, we are expecting FCF to

be negative in the first quarter of the year. However, we do expect to deliver positive Free Cash Flow for the year.

We ended Q4 with €1.8 billion in cash and cash equivalents, restricted cash, and short term investments.

Q1 2020 OUTLOOK

These forward-looking statements reflect Spotify's expectations as of February 5, 2020 and are subject to substantial uncertainty.

Q1 2020 Guidance:

- **Total MAUs**: 279-289 million
- **Total Premium Subscribers:** 126-131 million
- **Total Revenue:** €1.71-€1.91 billion
- **Gross Margin:** 23.5-25.5%
- **Operating Profit/Loss:** €(65)-€(115) million

Full Year 2020 Guidance:

- **Total MAUs**: 328-348 million
- **Total Premium Subscribers:** 143-153 million
- **Total Revenue:** €8.08-€8.48 billion
- **Gross Margin:** 23.2-25.2%
- **Operating Profit/Loss:** €(150)-€(250) million

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Paul Vogel, our Chief Financial Officer, will be on hand to answer questions submitted to ir@spotify.com and via the live chat window available through the webcast. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (844) 343-9039
Participant International Dial-In Number: (647) 689-5130
Conference ID: 1654959

CONTACTS

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Use of Non-IFRS Measures

To supplement our interim condensed consolidated financial statements, which are prepared and presented in accordance with IFRS, we use the following non-IFRS financial measures: Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect, Ad-Supported revenue excluding foreign exchange effect, EBITDA, and Free Cash Flow. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are important metrics because they present measures that facilitate comparison to our historical performance. However, Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS. Management believes that EBITDA and Free Cash Flow are important metrics because they present measures that approximate the amount of cash generated that is available to repay debt obligations, to make investments, and for certain other activities that exclude certain infrequently occurring and/or non-cash items. However, these measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, or other financial measures prepared in accordance with IFRS. For more information on these non-IFRS financial measures, please see “Reconciliation of IFRS to Non-IFRS Results” table.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “seek,” “believe,” “estimate,” “predict,” “potential,” “continue,” “contemplate,” “possible,” and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; competition for users and user listening time; our dependence upon third-party licenses for most of the content we stream; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; new copyright legislation that may increase the cost and/or difficulty of music licensing; risks associated with our international expansion, including difficulties obtaining rights to stream content on favorable terms; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to expand our operations to deliver content beyond music, including podcasts; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; risks relating to privacy and protection of user data; our ability to maintain, protect, and enhance our brand; ability to hire and retain key personnel; risks relating to the acquisition, investment, and disposition of companies or technologies; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our estimates and forward-looking statements is included in our filings with the U.S. Securities and Exchange Commission (“SEC”), including our Annual Report on Form 20-F filed with the SEC on February 12, 2019. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this shareholder letter.

Interim condensed consolidated statement of operations

(Unaudited)

(in € millions, except share and per share data)

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue	1,855	1,731	1,495	6,764	5,259
Cost of revenue	1,381	1,290	1,096	5,042	3,906
Gross profit	**474**	**441**	**399**	**1,722**	**1,353**
Research and development	173	136	100	615	493
Sales and marketing	276	178	163	826	620
General and administrative	102	73	42	354	283
	551	**387**	**305**	**1,795**	**1,396**
Operating (loss)/income	**(77)**	**54**	**94**	**(73)**	**(43)**
Finance income	7	226	389	275	455
Finance costs	(103)	(10)	(2)	(333)	(584)
Share in losses of associate	—	—	—	—	(1)
Finance income/(costs) - net	**(96)**	**216**	**387**	**(58)**	**(130)**
(Loss)/income before tax	**(173)**	**270**	**481**	**(131)**	**(173)**
Income tax expense/(benefit)	36	29	39	55	(95)
Net (loss)/income attributable to owners of the parent	**(209)**	**241**	**442**	**(186)**	**(78)**
(Loss)/earnings per share attributable to owners of the parent					
Basic	(1.14)	1.34	2.44	(1.03)	(0.44)
Diluted	(1.14)	0.36	0.36	(1.03)	(0.51)
Weighted-average ordinary shares outstanding					
Basic	182,942,528	179,863,596	181,067,994	180,960,579	177,154,405
Diluted	182,942,528	188,477,554	190,511,148	180,960,579	181,210,292

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	December 31, 2019	December 31, 2018
Assets		
Non-current assets		
Lease right-of-use assets	489	—
Property and equipment	291	197
Goodwill	478	146
Intangible assets	58	28
Long term investments	1,497	1,646
Restricted cash and other non-current assets	69	65
Deferred tax assets	9	8
	2,891	**2,090**
Current assets		
Trade and other receivables	402	400
Income tax receivable	4	2
Short term investments	692	915
Cash and cash equivalents	1,065	891
Other current assets	68	38
	2,231	**2,246**
Total assets	**5,122**	**4,336**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	4,192	3,801
Treasury shares	(370)	(77)
Other reserves	924	875
Accumulated deficit	(2,709)	(2,505)
Equity attributable to owners of the parent	**2,037**	**2,094**
Non-current liabilities		
Lease liabilities	622	—
Accrued expenses and other liabilities	20	85
Provisions	2	6
Deferred tax liabilities	2	2
	646	**93**
Current liabilities		
Trade and other payables	549	427
Income tax payable	9	7
Deferred revenue	319	258
Accrued expenses and other liabilities	1,438	1,076
Provisions	13	42
Derivative liabilities	111	339
	2,439	**2,149**
Total liabilities	**3,085**	**2,242**
Total equity and liabilities	**5,122**	**4,336**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Operating activities					
Net (loss)/income	(209)	241	442	(186)	(78)
Adjustments to reconcile net (loss)/income to net cash flows					
Depreciation of property and equipment and lease right-of-use assets	20	17	4	71	21
Amortization of intangible assets	4	5	4	16	11
Share-based payments expense	28	31	23	122	88
Finance income	(7)	(226)	(389)	(275)	(455)
Finance costs	103	10	2	333	584
Income tax expense/(benefit)	36	29	39	55	(95)
Other	14	1	15	13	8
Changes in working capital:					
(Increase)/decrease in trade receivables and other assets	(14)	2	(59)	(27)	(61)
Increase in trade and other liabilities	222	2	57	454	291
Increase in deferred revenue	15	12	17	59	38
Decrease in provisions	1	(44)	(7)	(35)	(17)
Interest paid on lease liabilities	(12)	(12)	—	(37)	—
Interest received	2	4	3	14	18
Income tax paid	—	(1)	(1)	(4)	(9)
Net cash flows from operating activities	**203**	**71**	**150**	**573**	**344**
Investing activities					
Business combinations, net of cash acquired	—	(7)	—	(331)	(9)
Purchases of property and equipment	(32)	(26)	(65)	(135)	(125)
Purchases of short term investments	(231)	(268)	(300)	(901)	(1,069)
Sales and maturities of short term investments	165	245	66	1,163	1,226
Change in restricted cash	(2)	3	(1)	2	(10)
Other	(5)	(4)	—	(16)	(35)
Net cash flows used in investing activities	**(105)**	**(57)**	**(300)**	**(218)**	**(22)**
Financing activities					
Payments of lease liabilities	(4)	(4)	—	(17)	—
Lease incentives received	—	15	—	15	—
Repurchases of ordinary shares	(30)	(125)	(72)	(438)	(72)
Proceeds from exercise of stock options	71	30	17	154	163
Proceeds from the issuance of warrants	—	15	—	15	—
Proceeds from the exercise of warrants	74	—	—	74	—
Other	(2)	(4)	—	(6)	1
Net cash flow from/(used in) financing activities	**109**	**(73)**	**(55)**	**(203)**	**92**
Net increase/(decrease) in cash and cash equivalents	**207**	**(59)**	**(205)**	**152**	**414**
Cash and cash equivalents at beginning of the period	877	909	1,095	891	477
Net exchange (losses)/gains on cash and cash equivalents	(19)	27	1	22	—
Cash and cash equivalents at period end	**1,065**	**877**	**891**	**1,065**	**891**

Calculation of basic and diluted earnings/(loss) per share

(Unaudited)

(in € millions, except share and per share data)

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Basic (loss)/earnings per share					
Net (loss)/income attributable to owners of the parent	(209)	241	442	(186)	(78)
Share used in computation:					
Weighted-average ordinary shares outstanding	182,942,528	179,863,596	181,067,994	180,960,579	177,154,405
Basic (loss)/earnings per share attributable to owners of the parent	**(1.14)**	**1.34**	**2.44**	**(1.03)**	**(0.44)**
Diluted (loss)/earnings per share					
Net (loss)/income attributable to owners of the parent	(209)	241	442	(186)	(78)
Fair value gains on dilutive warrants	—	(173)	(373)	—	(14)
Net (loss)/income used in the computation of diluted (loss)/earnings per share	**(209)**	**68**	**69**	**(186)**	**(92)**
Shares used in computation:					
Weighted-average ordinary shares outstanding	182,942,528	179,863,596	181,067,994	180,960,579	177,154,405
Warrants	—	3,867,477	3,838,911	—	4,055,887
Share options	—	4,436,345	5,483,881	—	—
Restricted stock units	—	157,623	77,832	—	—
Restricted stock awards	—	50,623	42,530	—	—
Other contingently issuable shares	—	101,890	—	—	—
Diluted weighted-average ordinary shares	**182,942,528**	**188,477,554**	**190,511,148**	**180,960,579**	**181,210,292**
Diluted (loss)/earnings per share attributable to owners of the parent	**(1.14)**	**0.36**	**0.36**	**(1.03)**	**(0.51)**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
IFRS revenue	1,855	1,495	6,764	5,259
Foreign exchange effect on 2019 revenue using 2018 rates	(21)		(117)	
Revenue excluding foreign exchange effect	1,834		6,647	
IFRS revenue year-over-year change %	24%		29%	
Revenue excluding foreign exchange effect year-over-year change %	23%		26%	
IFRS Premium revenue	1,638	1,320	6,086	4,717
Foreign exchange effect on 2019 Premium revenue using 2018 rates	(15)		(90)	
Premium revenue excluding foreign exchange effect	1,623		5,996	
IFRS Premium revenue year-over-year change %	24%		29%	
Premium revenue excluding foreign exchange effect year-over-year change %	23%		27%	
IFRS Ad-Supported revenue	217	175	678	542
Foreign exchange effect on 2019 Ad-Supported revenue using 2018 rates	(6)		(27)	
Ad-Supported revenue excluding foreign exchange effect	211		651	
IFRS Ad-Supported revenue year-over-year change %	23%		25%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	21%		20%	

EBITDA
(Unaudited)
(in € millions)

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net (loss)/income attributable to owners of the parent	(209)	241	442	(186)	(78)
Finance income/(costs) - net	96	(216)	(387)	58	130
Income tax expense/(benefit)	36	29	39	55	(95)
Depreciation and amortization	24	22	8	87	32
EBITDA	**(53)**	**76**	**102**	**14**	**(11)**

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net cash flows from operating activities	203	71	150	573	344
Capital expenditures	(32)	(26)	(65)	(135)	(125)
Change in restricted cash	(2)	3	(1)	2	(10)
Free Cash Flow	**169**	**48**	**84**	**440**	**209**

April 29, 2020

Dear Shareholders,

Despite the global uncertainty around COVID-19 in Q1, our business met or exceeded our forecast for all major metrics. For Q2 and the remainder of the year, our outlook for most of our key performance indicators has remained unchanged with the exception of revenue where a slowdown in advertising and significant changes in currency rates are having an impact. Our business remains very healthy with more than €1.8 billion in liquidity and we expect to be free cash flow positive for the year. Overall, despite some changes in listening patterns, we are encouraged with the trends we are seeing, and continue to be optimistic about the underlying growth fundamentals of the business.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q1 2019**	**Q4 2019**	**Q1 2020**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	217	271	286	31%	5%
Premium Subscribers	100	124	130	31%	5%
Ad-Supported MAUs	123	153	163	32%	7%
FINANCIALS (€M)					
Premium	1,385	1,638	1,700	23%	4%
Ad-Supported	126	217	148	17%	(32%)
Total Revenue	**1,511**	**1,855**	**1,848**	**22%**	**(0%)**
Gross Profit	373	474	472	27%	(1%)
Gross Margin	**24.7%**	**25.6%**	**25.5%**	--	--
Operating (Loss)/Income	**(47)**	**(77)**	**(17)**	--	--
Operating Margin	(3.1%)	(4.1%)	(0.9%)	--	--
Net cash flows (used in)/from operating activities	209	203	(9)	--	--
Free Cash Flow[1]	**173**	**169**	**(21)**	--	--

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

COVID-19 IMPACT

While we are pleased with how our business has performed so far, our thoughts and attention are most focused on the health and well-being of our employees, the greater creative community and society at large. We are in unprecedented times and, like most, we are trying to navigate this uncertainty as best we can. We are fortunate that as a business we are able to operate with very little disruption and our hope is that providing music, information, and an escape for many can provide some joy and comfort.

Operationally, we are now in week 7 of our entire employee base working remotely. The team has universally risen to this new temporary reality, and it's been inspiring to watch everyone support each other virtually. From a performance standpoint, we are encouraged and haven't seen any falloff in overall employee productivity despite the current work from home situation.

Our hiring was also in line with expectations in the quarter. That being said, we have taken steps to slow hiring for the remaining three quarters of 2020 and have reduced open headcount by roughly 30% from prior growth expectations. We will continue to grow, and believe we are in a great position to invest in product and innovation. We also recognize it may be more challenging to effectively recruit and onboard given the inherent uncertainty moving forward.

Changing Consumer Engagement

Beginning in late February, we saw some impact to our business. While MAUs and Subs remained in line with our forecast and held steady, in hard hit markets like Italy and Spain, we saw a notable decline in Daily Active Users and consumption. But over the last few weeks, we've seen listening start to rebound, and in many markets, consumption has meaningfully recovered.

In this environment, we are seeing an evolution of Spotify's relationship with its consumers. For example, when we saw consumption starting to decline we would have assumed that MAUs and Paid Subscribers would be negatively impacted, but that wasn't the case. In fact, both new and reactivated MAUs grew substantially even during lockdown periods in major markets. Additionally, despite some of the consumption changes, the ratio of Daily Active Users relative to Monthly Active Users was strong in the quarter. We did see a bit of a decline over the last few weeks of March; however, the average DAU/MAU ratio for the quarter was higher than in Q1 of 2019.

Not surprisingly, we have seen usage in Car, Wearable, and Web platforms drop (double digits in some instances). However, the audience through TV and Game Consoles has grown materially, in excess of 50% over the same time period. In fact, for Ad-Supported MAU in the US, game consoles have been a top 2 or 3 platform in terms of consumption for the better part of the month, and connected device usage generally is up more than 40% among Ad-Supported users globally.

It's clear from our data that morning routines have changed significantly. Every day now looks like the weekend. This trend was seen more significantly in Podcasts than in Music, likely due to the fact that Car and Commute use cases have changed quite dramatically. However, listening time around activities like cooking, doing chores, family time, and relaxing at home have each been up double digits over the past few weeks. Audio has also taken on a greater role in managing the stress and anxiety many are feeling in today's unprecedented environment. Two in five consumers we surveyed in the US said they were listening to music to manage stress more than they typically do, which explains the recent rise we've seen in searches for "chill" and "instrumental". We've also seen an uptick in consumption of podcasts related to wellness and meditation over the last few weeks.

The past few months have only strengthened our belief in the Freemium model. As mentioned, we have seen strong growth in users, both new and returning. Historically, over 60% of our Premium users start as Ad-Supported users, so continuing to grow the top of the funnel is very healthy for our ecosystem. We also know that roughly 70% of churned users are back with Spotify within 45 days of leaving, which includes coming back through either our Premium or Ad-Supported experience. While our sincere hope is for some sense of "normalcy" to return to people's lives as quickly as possible, we do believe our model is uniquely positioned to not just weather this storm, but to come out the other side even stronger.

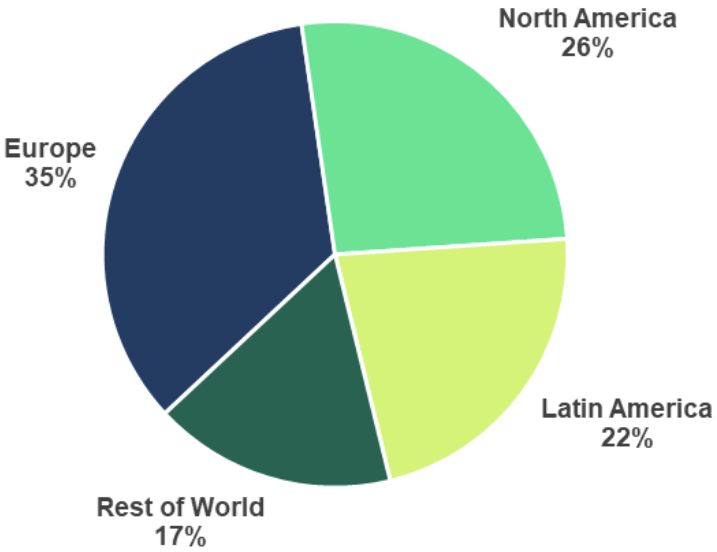
MONTHLY ACTIVE USERS ("MAUs")

Total MAUs grew 31% Y/Y to 286 million, in line with our forecast and expectations.

Q1 2020 was the third consecutive quarter of year on year growth above 30%. In all four of our regions, MAU grew faster in Q1 2020 than it did Q1 2019. Growth in North America accelerated for the 2nd straight quarter led by outperformance in the US, as did growth in our largest region, Europe. Our Latin America and Rest of World regions continue to see the fastest growth, with those segments growing 36% and 65% Y/Y, respectively.

Of note, we are beginning to see growth in reactivations following stay-at-home orders being implemented globally. While it is too early to tell what the lasting impact will be from this emerging trend, we will be tracking this over the coming months as the global health emergency evolves. Overall, the funnel remains strong, with both activated and reactivated MAUs growing substantially even during the COVID-related lockdown periods in major markets. Retention continues to see significant increases Y/Y particularly on the Ad-Supported tier with retention percentages up hundreds of basis points at key milestones in a users' first 6 months. We remain confident based on our operating history that strong MAU trends are a leading indicator for future subscriber and financial growth.

Total MAUs by Region

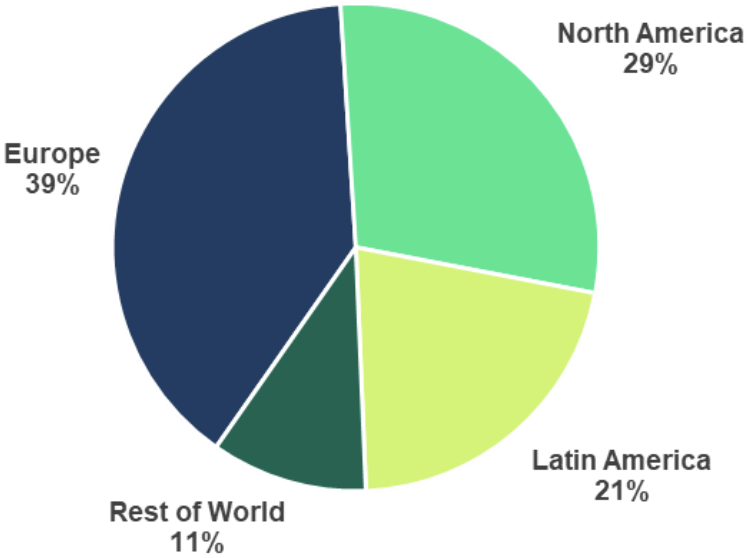


PREMIUM SUBSCRIBERS

At the end of Q1'20 we had 130 million Premium Subscribers globally, up 31% Y/Y and ahead of our forecast. Family Plan was a significant driver of our outperformance once again. Spotify Kids (our stand-alone beta app designed for children three and older) launched in eight more markets during Q1 - Australia and the UK in February, Mexico, Brazil, and Argentina in mid-March, and most recently the US, Canada, and France toward the end of the quarter. Additionally, we expanded the pilot of our Duo offering, Premium plans for two people, into three more geographies this quarter: Canada, France, and Japan. The Duo plan is now available in 23 markets total following strong results from rollouts in Denmark, Ireland, Poland, and Latin America last year.

Churn improved more than 70 bps Y/Y, but ticked up approximately 10 bps sequentially. Given the high promotional activity related to our holiday campaign in the fourth quarter, the first quarter typically sees more seasonal churn and the quarter was in line with expectations. We did see some minor impact from the effects of COVID-19 (modest increase in cancellations and payment failures) at the very end of the quarter, but it had little impact on reported churn and trends have been steadily improving. Approximately 1 in 6 respondents to our exit survey in the US cited COVID-related reasons for cancelling their accounts. Encouragingly, more than 80% of those respondents indicated that they are extremely likely or likely to renew once the economic situation improves.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total revenue of €1,848 million grew 22% Y/Y in Q1. Consolidated revenue was roughly in line with expectations. Premium revenue grew 23% Y/Y to €1,700 million, and slightly outperformed our expectations. Ad-Supported revenues grew 17% Y/Y, but fell short of expectations as a result of impacts from COVID-19, particularly the last three weeks of the quarter.

For the Premium business, average revenue per user ("ARPU") of €4.42 in Q1 was down 6% Y/Y (down 7% excluding the impact from FX rates). A significant portion of this decline was driven by the continuation of longer free trials rolling over from Q4 and additional intake during Q1. Excluding the impact of Trials & Campaigns, ARPU would have declined 4% Y/Y as a result of continued mix shifts in product and geography.

Ad-Supported revenues of €148 million fell short of our forecast. Prior to the global health crisis, we were in a strong position to hit or exceed our Q1 target. Revenues were pacing ahead of forecast as a number of initiatives implemented toward the end of 2019 seemed to be bearing fruit faster than anticipated. However, in March we saw deceleration across all sales channels as previously booked business was cancelled or paused, and Programmatic buyers pulled back spend. Ad-Supported Revenue in the last 3 weeks of the quarter was more than 20% below forecasted levels as a result.

Despite the weakness in the final 3 weeks of the quarter, revenue from our Direct and Ad Studio channels finished ahead of forecast given pacing in the preceding months. However, revenues

from Programmatic were hit particularly hard, finishing the quarter short of expectations. We have revised our 2020 forecast for Ad-Supported revenue significantly from our pre-COVID estimates given the current levels of uncertainty surrounding the global health crisis. More information can be found in our 'Q2 & 2020 Outlook' section below.

There were a number of positives in the quarter. Most notably, we successfully rolled out Dynamic Ad Breaks (DAB) in our Top 10 markets, and announced the beta test of a new ad product for Podcasts at CES, Streaming Ad Insertion (SAI). Since the end of the quarter, we have expanded the reach of DAB and it has now been launched globally.

Gross Margin

Gross Margin finished as 25.5% in Q1 which both exceeded our expectations and finished at the high end of our guidance range. The largest driver of outperformance stemmed from the core royalty component due to product mix, offset somewhat by one-time reductions. We also saw a benefit from non-royalty cost of revenue, most notably streaming delivery costs. We did see some delays in our content production and release schedule, some of which was related to COVID-19. It's likely that we will continue to see lower overall production relative to our original plan and expect lower levels in Q2 than our original forecast.

On April 1, we announced a renewed global licensing partnership with Warner Music Group. The expanded deal covers countries where we currently operate, as well as certain additional markets. We are pleased with the outcome, and as stated previously, do not believe the new deal will materially impact music economics. We look forward to working together with Warner to grow the music industry over the long term.

Premium Gross Margin was 28.3% in Q1, up from 27.4% in Q4, and up 220 bps Y/Y. Ad-Supported Gross Margin was (6.6)% in Q1, down from 11.6% in Q4 and down 1,550 bps Y/Y. We continue to believe that our investments in podcasts will benefit the platform as a whole, and see an overall benefit to both usage, engagement, and retention across both Ad-Supported and Premium. With that in mind, to improve consistency in the segment classification between podcast advertising revenues and costs of podcast content, effective January 1, 2020, all costs of podcast content were wholly recognized in the Ad-Supported segment rather than allocating certain podcast costs between segments. The segment Gross Margins above reflect this change, and prior period results have been revised to conform with the current period's classification. There is no impact to consolidated Gross Margin. The change in classification for podcasts had roughly a 600 bp impact on Ad-Supported Gross Margin. There were additional unusual items that negatively impacted the Ad-Supported Gross Margin by 500 bps in the quarter.

Operating Expenses / Income (Loss)

Operating expenses totaled €489 million in Q1, an increase of 16% from 1Q'19 but short of our plan. The cost of Share Based Compensation, both from the social charges as a result of share price movements and lower than expected grants of new equity, was the largest driver of the variance to forecast this quarter. Social charges, in particular, came in €24 million lower than

plan and overall equity expense was €36 million less than expected. We also experienced positive variance from COVID-19-related forces; travel was down significantly this quarter, and certain areas of spend like events and campaigns were postponed to a later period or cancelled.

To that end, as mentioned above, we have decided to slow the pace of hiring for the remainder of the year until we have better visibility into the economic impact of COVID-19. We will continue to focus our investments in areas of strategic importance, and remain committed to our long-term targets for hiring in Research & Development. Additionally, we are committed to retaining all existing employees, but are mindful about the absolute level of hiring until we have more clarity on the global economic picture and the length of our work from home status. At the end of Q1, our workforce consisted of 5,779 FTEs globally.

Content

We continue to be excited by the growth trajectory and adoption of podcast content globally. While the current environment has shifted listening patterns temporarily, nothing we have seen changes our long-term view of the potential for Podcasts. Today, 19% of our Total MAUs engage with podcast content, up from 16% in Q4 2019, and consumption continues to grow at triple digit rates Y/Y.

In Q1, we launched 78 Originals & Exclusives ("O&E") podcasts globally and completed the acquisition of The Ringer, rounding out our total number of studio operations to four: Gimlet, Parcast, The Ringer, and Spotify Studios. Some notable launches include *Mom's Basement*, a show about the culture and personalities of gaming hosted by Faze Banks and Keemstar of the popular eSports group FaZe Clan; *Made in Medellin*, an original podcast about the life and music of J. Balvin which earned more than 295 million media impressions across the US, Spain, Colombia, Argentina, Chile, and Mexico; and *Le Nuage*, a "fact-based" thriller that became the #1 podcast in France the week it launched.

There are now more than 1 million podcasts available on our platform, and more than 60% of them are powered by Anchor, which we acquired a year ago. In Q1 specifically, Anchor-powered shows accounted for more than 70% of new podcasts launched on our service.

Overall supply of new podcast content was impacted slightly by COVID-19, largely driven by double-digit declines in episodes of our Catalog shows, while there was little-to-no change in output from Spotify Originals and Exclusives. Across the top 1,000 Catalog shows, we observed a stable number of shows publishing new episodes, but approximately a 20% decline in the number of episodes published by these shows vs. pre-COVID. Our portfolio of O&E was more resilient to the impact of COVID-19, as nearly all our show teams shifted to producing podcasts while working from home, which allowed us to publish a stable supply of new episodes. *Fest & Flauschig*, one of our biggest podcasts in Germany, adapted to working from home by adding a number of new episodes each week to keep fans company during the lockdown. Gimlet also expanded their coverage on *Science Vs* and *The Journal* to focus on COVID-19, which resulted in substantial growth in audience and consumption time for each title.

COVID-19 has impacted the creator community significantly, and we are doing our best to support the community in these trying times. In response to the global pandemic, we shifted our priorities in March to introduce a music relief project using a multi-faceted approach: 1) a program to match donations received by organizations that support artists and creators in need, and 2) artist-selected fundraising destinations recommended to their fans.

On March 25, we launched the Spotify COVID-19 Music Relief project, through which we have partnered with organizations that offer financial relief to those in the music and creator community around the world. We pledged to match dollar-for-dollar public donations made to these organizations, up to a total Spotify contribution of $10 million. On April 22, we also followed up by launching Artist Fundraising pick, allowing artists to highlight donations to support themselves or our music relief project. On the first day we saw more than 27,000 artists enable this feature on their profile page and there are approximately 50,000 currently using the feature.

Two-Sided Marketplace

We continue to drive execution and innovation to further our goal of building a diversified digital services platform enabling creator teams to connect, create, and grow their audiences on our service. Sponsored Recommendations continue to perform; Premium opt out rates are extraordinarily low, while click through rates and conversion rates have remained strong and continue to over index click through rates on comparable digital platforms. Of note, the team from Republic booked a Sponsored Recommendation campaign to promote The Weeknd's new album, After Hours, which saw the highest click through rate of a campaign on our platform to date. It was the largest album debut of the year so far, and the album reached #1 following this promotional period. We continue to believe that growth from these and other products in our Marketplace strategy will exceed 50% for the full year.

Free Cash Flow

Last quarter we called attention to the impact of timing shifts in certain payments to licensors. This shift in working capital inflated Free Cash Flow in Q4 and was anticipated to reverse this quarter as payments were made. Total Free Cash Flow was €(21) million in Q1 as a result. While this was the first operating cash outflow we've had in the past 9 quarters, the cash burn was actually less than we had anticipated. Offsetting some of the unfavorable movements in working capital was lower spend on PP&E related to office build-outs. We maintain positive working capital dynamics overall, and continue to expect that we will deliver positive Free Cash Flow for the year.

In addition to the positive Free Cash Flow dynamics, we maintain a strong liquidity position and are confident in the financial position of the business as we look at the current and future uncertainty surrounding the global health crisis. At the end of Q1, we had €1.8 billion in cash and cash equivalents, restricted cash, and short term investments on our Balance Sheet, and no indebtedness[2].

[2] As of March 31, 2020, we have no material outstanding indebtedness, other than lease liabilities recognized under IFRS 16.

Q2 & 2020 OUTLOOK

These forward-looking statements reflect Spotify's expectations as of April 29, 2020 and are subject to substantial uncertainty. The estimates below utilize the same methodology we've used in prior quarters with respect to our guidance and the potential range of outcomes. Given the extraordinary operating circumstances we currently face with respect to the impact of COVID-19 there is a greater likelihood of variances within those ranges than typical quarters.

Q2 2020 Guidance:

- **Total MAUs**: 289-299 million
- **Total Premium Subscribers:** 133-138 million
- **Total Revenue:** €1.75-€1.95 billion
    - Assumes approximately 300 bps headwind to growth Y/Y due to movements in foreign exchange rates
- **Gross Margin:** 23.3-25.3%
- **Operating Profit/Loss:** €(45)-€(95) million
    - Includes expected charitable contributions of roughly €(9) million

We are reiterating Full Year 2020 Guidance with the exception of Revenue:

- **Total MAUs**: 328-348 million
- **Total Premium Subscribers:** 143-153 million
- **Total Revenue:** Reduced to €7.65-€8.05 billion from €8.08-€8.48 billion
    - The two biggest drivers of the reduction in revenue guidance relate to changes in foreign exchange rates and changes in our advertising expectations related to COVID-19. F/X is the largest impact accounting for almost half of the change
- **Gross Margin:** 23.2-25.2%
- **Operating Profit/Loss:** €(150)-€(250) million

EARNINGS QUESTION & ANSWER SESSION

The Company will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Paul Vogel, our Chief Financial Officer, will be on hand to answer questions submitted through slido.com using the event code **#SpotifyEarnings**. Participants also may join using the listen-only conference line:

Participant Toll Free Dial-In Number: (844) 343-9039
Participant International Dial-In Number: +1 (647) 689-5130
Conference ID: 9549846

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Use of Non-IFRS Measures

To supplement our interim condensed consolidated financial statements, which are prepared and presented in accordance with IFRS, we use the following non-IFRS financial measures: Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect, Ad-Supported revenue excluding foreign exchange effect, and Free Cash Flow. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are useful to investors because they present measures that facilitate comparison to our historical performance. However, Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS. Management believes that Free Cash Flow is useful to investors because it presents a measure that approximates the amount of cash generated that is available to repay debt obligations, to make investments, and for certain other activities that exclude certain infrequently occurring and/or non-cash items. However, Free Cash Flow should be considered in addition to, not as a substitute for or superior to, net cash flows (used in)/from operating activities or other financial measures prepared in accordance with IFRS. For more information on these non-IFRS financial measures, please see “Reconciliation of IFRS to Non-IFRS Results” table.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “seek,” “believe,” “estimate,” “predict,” “potential,” “continue,” “contemplate,” “possible,” and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; competition for users and user listening time; our dependence upon third-party licenses for most of the content we stream; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; new copyright legislation that may increase the cost and/or difficulty of music licensing; risks associated with our international expansion, including difficulties obtaining rights to stream content on favorable terms; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to expand our operations to deliver content beyond music, including podcasts; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; risks relating to privacy and protection of user data; our ability to maintain, protect, and enhance our brand; ability to hire and retain key personnel; risks relating to the acquisition, investment, and disposition of companies or technologies; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and the impact of the COVID-19 pandemic on our business and operations, including any adverse impact on advertising revenue or subscriber acquisition and retention. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our estimates and forward-looking statements is included in our filings with the U.S. Securities and Exchange Commission (“SEC”), including our Annual Report on Form 20-F filed with the SEC on February 12, 2020. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this shareholder letter.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Revenue	1,848	1,855	1,511
Cost of revenue	1,376	1,381	1,138
Gross profit	**472**	**474**	**373**
Research and development	162	173	155
Sales and marketing	231	276	172
General and administrative	96	102	93
	489	**551**	**420**
Operating loss	**(17)**	**(77)**	**(47)**
Finance income	70	7	34
Finance costs	(12)	(103)	(156)
Finance income/(costs) - net	**58**	**(96)**	**(122)**
Income/(loss) before tax	**41**	**(173)**	**(169)**
Income tax expense/(benefit)	40	36	(27)
Net income/(loss) attributable to owners of the parent	**1**	**(209)**	**(142)**
Earnings/(loss) per share attributable to owners of the parent			
Basic	0.00	(1.14)	(0.79)
Diluted	(0.20)	(1.14)	(0.79)
Weighted-average ordinary shares outstanding			
Basic	185,046,324	182,942,528	180,613,539
Diluted	185,632,113	182,942,528	180,613,539

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	March 31, 2020	December 31, 2019
Assets		
Non-current assets		
Lease right-of-use assets	491	489
Property and equipment	291	291
Goodwill	627	478
Intangible assets	87	58
Long term investments	1,312	1,497
Restricted cash and other non-current assets	69	69
Deferred tax assets	6	9
	2,883	**2,891**
Current assets		
Trade and other receivables	363	402
Income tax receivable	3	4
Short term investments	733	692
Cash and cash equivalents	951	1,065
Other current assets	93	68
	2,143	**2,231**
Total assets	**5,026**	**5,122**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	4,079	4,192
Treasury shares	(180)	(370)
Other reserves	822	924
Accumulated deficit	(2,708)	(2,709)
Equity attributable to owners of the parent	**2,013**	**2,037**
Non-current liabilities		
Lease liabilities	624	622
Accrued expenses and other liabilities	46	20
Provisions	2	2
Deferred tax liabilities	2	2
	674	**646**
Current liabilities		
Trade and other payables	547	549
Income tax payable	8	9
Deferred revenue	317	319
Accrued expenses and other liabilities	1,389	1,438
Provisions	12	13
Derivative liabilities	66	111
	2,339	**2,439**
Total liabilities	**3,013**	**3,085**
Total equity and liabilities	**5,026**	**5,122**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Operating activities			
Net income/(loss)	1	(209)	(142)
Adjustments to reconcile net income/(loss) to net cash flows			
Depreciation of property and equipment and lease right-of-use assets	21	20	17
Amortization of intangible assets	5	4	4
Share-based payments expense	37	28	26
Finance income	(70)	(7)	(34)
Finance costs	12	103	156
Income tax expense/(benefit)	40	36	(27)
Other	4	14	8
Changes in working capital:			
Decrease/(increase) in trade receivables and other assets	22	(14)	35
(Decrease)/increase in trade and other liabilities	(63)	222	155
(Decrease)/increase in deferred revenue	(4)	15	13
(Decrease)/increase in provisions	(1)	1	—
Interest paid on lease liabilities	(15)	(12)	(4)
Interest received	3	2	4
Income tax paid	(1)	—	(2)
Net cash flows (used in)/from operating activities	**(9)**	**203**	**209**
Investing activities			
Business combinations, net of cash acquired	(137)	—	(288)
Purchases of property and equipment	(12)	(32)	(37)
Purchases of short term investments	(498)	(231)	(104)
Sales and maturities of short term investments	477	165	383
Change in restricted cash	—	(2)	1
Other	(14)	(5)	(4)
Net cash flows used in investing activities	**(184)**	**(105)**	**(49)**
Financing activities			
Payments of lease liabilities	(4)	(4)	(5)
Lease incentives received	7	—	—
Repurchases of ordinary shares	—	(30)	(126)
Proceeds from exercise of share options	77	71	33
Proceeds from the exercise of warrants	—	74	—
Other	(3)	(2)	—
Net cash flows from/(used in) financing activities	**77**	**109**	**(98)**
Net (decrease)/increase in cash and cash equivalents	**(116)**	**207**	**62**
Cash and cash equivalents at beginning of the period	1,065	877	891
Net exchange gains/(losses) on cash and cash equivalents	2	(19)	13
Cash and cash equivalents at period end	**951**	**1,065**	**966**

Calculation of basic and diluted earnings/(loss) per share
(Unaudited)
(in € millions, except share and per share data)

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Basic earnings/(loss) per share			
Net income/(loss) attributable to owners of the parent	1	(209)	(142)
Share used in computation:			
Weighted-average ordinary shares outstanding	185,046,324	182,942,528	180,613,539
Basic earnings/(loss) per share attributable to owners of the parent	**0.00**	**(1.14)**	**(0.79)**
Diluted loss per share			
Net income/(loss) attributable to owners of the parent	1	(209)	(142)
Fair value gains on dilutive warrants	(38)	—	—
Net loss used in the computation of diluted loss per share	**(37)**	**(209)**	**(142)**
Shares used in computation:			
Weighted-average ordinary shares outstanding	185,046,324	182,942,528	180,613,539
Warrants	585,789	—	—
Diluted weighted-average ordinary shares	**185,632,113**	**182,942,528**	**180,613,539**
Diluted loss per share attributable to owners of the parent	**(0.20)**	**(1.14)**	**(0.79)**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended	
	March 31, 2020	March 31, 2019
IFRS revenue	1,848	1,511
Foreign exchange effect on 2020 revenue using 2019 rates	(11)	
Revenue excluding foreign exchange effect	1,837	
IFRS revenue year-over-year change %	22%	
Revenue excluding foreign exchange effect year-over-year change %	22%	
IFRS Premium revenue	1,700	1,385
Foreign exchange effect on 2020 Premium revenue using 2019 rates	(8)	
Premium revenue excluding foreign exchange effect	1,692	
IFRS Premium revenue year-over-year change %	23%	
Premium revenue excluding foreign exchange effect year-over-year change %	22%	
IFRS Ad-Supported revenue	148	126
Foreign exchange effect on 2020 Ad-Supported revenue using 2019 rates	(3)	
Ad-Supported revenue excluding foreign exchange effect	145	
IFRS Ad-Supported revenue year-over-year change %	17%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	15%	

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Net cash flows (used in)/from operating activities	(9)	203	209
Capital expenditures	(12)	(32)	(37)
Change in restricted cash	—	(2)	1
Free Cash Flow	**(21)**	**169**	**173**

July 29, 2020

Dear Shareholders,

Our business performed well in Q2 and continues to operate at a high level despite the continuing uncertainty surrounding the COVID-19 pandemic. Excluding the impact of social charges related to the increase in our share price during Q2, all of our key metrics would have finished at or ahead of our expectations. Our liquidity position and Free Cash Flow remain strong, and we are encouraged with the underlying trends of the business.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q2 2019**	**Q1 2020**	**Q2 2020**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	232	286	299	29%	5%
Premium Subscribers	108	130	138	27%	6%
Ad-Supported MAUs	129	163	170	31%	4%
FINANCIALS (€M)					
Premium	1,502	1,700	1,758	17%	3%
Ad-Supported	165	148	131	(21%)	(11%)
Total Revenue	**1,667**	**1,848**	**1,889**	**13%**	**2%**
Gross Profit	434	472	479	10%	2%
Gross Margin	**26.0%**	**25.5%**	**25.4%**	**--**	**--**
Operating (Loss)/Income	**(3)**	**(17)**	**(167)**	**--**	**--**
Operating Margin	(0.2%)	(0.9%)	(8.8%)	--	--
Net cash flows (used in)/from operating activities	90	(9)	39	(57%)	--
Free Cash Flow[1]	**50**	**(21)**	**27**	**(46%)**	**--**

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

MONTHLY ACTIVE USERS ("MAUs")

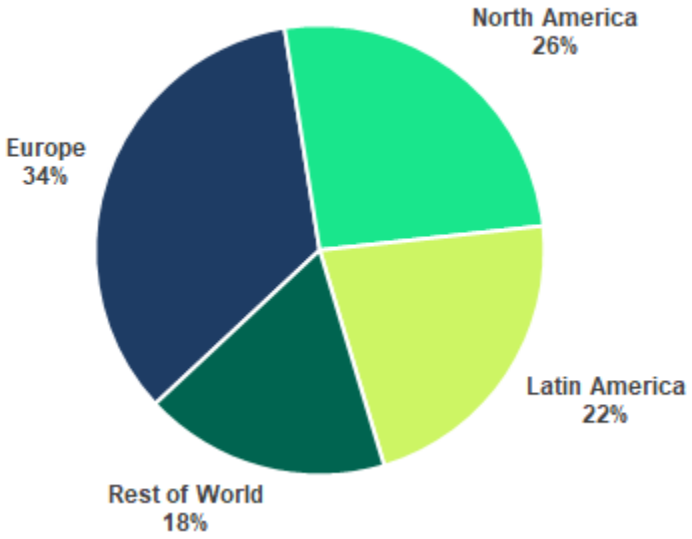
Total MAUs grew 29% Y/Y to 299 million, which is at the top of our guidance range.

Growth in North America exceeded our expectations, accelerating more than 200 bps this quarter relative to growth in Q2 last year. We saw retention continue to improve in Q2. This is on top of the gains we saw in North America throughout 2019. India also outperformed our forecast this quarter thanks to strong performance from marketing campaigns in the region. Latin America and Rest of World continue to see the fastest growth, with those regions growing 33% and 58% Y/Y, respectively.

Early in the quarter, we observed some COVID related softness in several countries across our emerging regions. Parts of Latin America and Rest of World saw slower than expected growth in April and May as we saw lower intake, an increase in churn, and increases in payment failures from our Premium users. Encouragingly, things rebounded significantly in June as we saw increased reactivations and a step down in churn. While we finished below forecast in aggregate across these regions, our strength in North America and other areas more than offset the slow start to the quarter. Additionally, we believe the improved momentum we saw in the back half of the quarter has continued into Q3 and we expect to hit our full year targets.

We noted last quarter that we began to see a modest impact on consumption hour trends driven by COVID. As of June 30, global consumption hours have recovered to pre-COVID levels. All regions have fully recovered with the exception of Latin America which is approximately 6% below peak levels prior to the global health crisis. Regions where the spread of COVID-19 appears to be slowing, including APAC and EU, have led the recovery in consumption. Consumption trends by platform are beginning to normalize as well; in-car listening at the end of the quarter was less than 10% below pre-COVID levels having recovered from a 50% decline at the trough in April.

Total MAUs by Region



PREMIUM SUBSCRIBERS

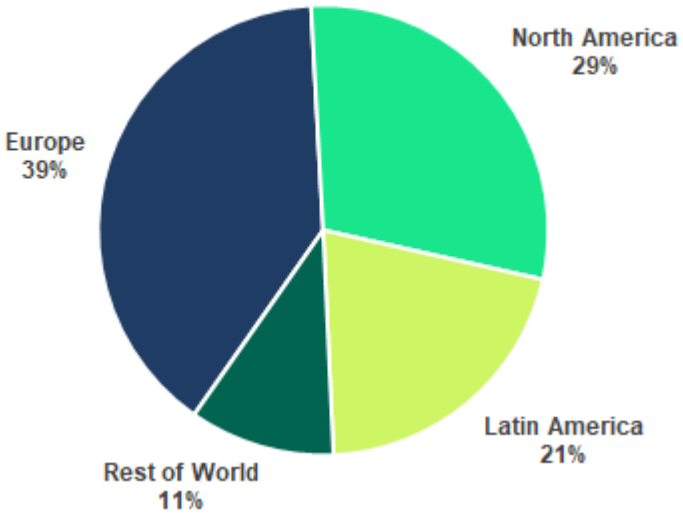
At the end of Q2'20 we had 138 million Premium Subscribers globally, up 27% Y/Y, which is at the top end of our guidance. Family Plan continues to be a significant driver of our outperformance. This quarter we expanded the availability of both Family Plan and our new Duo offering to new geographies. Following our launch in Russia and 12 surrounding markets on July 15th (post Q2), these multi-user plans are now available in 90+ territories globally. We saw strong subscriber growth across all regions in the quarter and finished ahead of our expectations.

Despite the ongoing uncertainty around COVID-19, we had our largest ever bi-annual campaign with strong gross additions in both the '3 months on us' intro offer for new users, as well as the win-back offer for returning customers. Other promotions and partnerships of note this quarter included the expansion of our Microsoft Xbox Game Pass relationship, and the launch of our TV app on Comcast's X1 set-top box. Following the success of last year's Xbox Game Pass holiday offer, we expanded the Microsoft partnership by making Spotify Premium available as a Perk for Xbox Game Pass Ultimate customers in seven markets: the US, UK, France, Brazil, Mexico, Australia, and Germany. Separately, the introduction of our TV app on Comcast's proprietary X1 set-top box marked the first integration with a pay-TV provider in the US, demonstrating continued progress against our ubiquity strategy.

Churn improved approximately 46 bps Y/Y, but ticked up approximately 8 bps sequentially. Our Y/Y churn improvement continues to be driven by the adoption of our higher retention offerings like Family & Student in addition to the overall maturity of our total subscriber base. Due to a shift in our trial offering cadence this year, we did see a bit more seasonality in churn in Q2 relative to years past. Our 3 Month Free trial offer was available until mid to late February in Q1,

which meant more subscribers than usual saw an end to their promotional offering in Q2. This led to a slight increase in churn Q/Q. However, this was expected and was in line with the forecast.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total revenue of €1,889 million grew 13% Y/Y in Q2. Consolidated revenue was roughly in line with expectations. Premium revenue grew 17% Y/Y to €1,758 million (up 19% excluding the impact of FX rates), and performed in line with our forecast. We recognized a reduction to revenue of €14 million due to a change in prior period estimates that accounted for an additional 1% headwind. Ad-Supported revenue fell 21% Y/Y as a result of COVID-19, but was slightly above our expectations. The quarter started off particularly slow but improved steadily with momentum in June overcoming the weakness early on.

Within Premium, average revenue per user ("ARPU") of €4.41 in Q2 was down 9% Y/Y (down 7% excluding the impact from FX rates). The reduction in revenue resulting from the change in prior period estimates mentioned above accounted for another 1% drag. Product mix was the dominant driver accounting for most of this decline.

While Ad-Supported revenue of €131 million was down both Y/Y and sequentially, we outperformed our forecast. Last quarter we noted a marked deceleration in sales brought on by the global health crisis where the last 3 weeks in March were down more than 20% relative to our forecast. Performance continued to lag our expectations through April and May, but we significantly outperformed expectations in the month of June. QTD through May, Ad-Supported revenues were down 25% Y/Y, but performance in the month of June showed significant

improvement and was only down 12% Y/Y. Our Direct and Programmatic channels were hit particularly hard, both declining double digits Y/Y. Conversely, both our Ad Studio and Podcast channels saw double digit growth and exceeded our forecast. Within Ad Studio (our self-service offering) we successfully rolled out video as a new product and expanded the platform out of beta into 22 markets as of June.

We continue to see positive growth in our Streaming Ad Insertion ("SAI") technology, which will be more widely available to US advertisers this summer. Our latest podcast advertising innovation involves In-App Offers powered by SAI, which resurfaces offers to podcast listeners with a visual reminder, allowing listeners to redeem offers in-app when the time is right for them.

Overall, podcast advertising outperformed in the quarter with momentum continuing into July. Additionally, we announced a $20 million advertising partnership with Omnicom Media Group which we believe is the largest global, strategic podcast advertising partnership to-date.

Gross Margin

Gross Margin finished at 25.4% in Q2 which both exceeded our expectations and finished above the high end of our guidance range. Gross Margin in the quarter was impacted by several "one-time" adjustments that when netted out, did benefit GM by 50 bps. Without these adjustments, GM would have finished modestly ahead of our expectations and at the higher end of guidance. We recognized efficiencies in Other CoR as streaming delivery costs were slightly more favorable relative to forecast. We do continue to invest in content and our spend this quarter was modestly higher than plan and had a slightly higher drag on GM than forecast.

Premium Gross Margin was 28.1% in Q2, down slightly from 28.3% in Q1, and up 60 bps Y/Y. Ad-Supported Gross Margin was (11.9)% in Q2, down from (6.6)% in Q1 and down 2,478 bps Y/Y. As a reminder, we now account for all content costs related to podcast investment in the Ad-Supported business.

Operating Expenses / Income (Loss)

Operating expenses totaled €646 million in Q2, an increase of 48% from Q2'19 and well above forecast. Core operating expenses grew slightly less than expected as certain marketing expenditures have been pushed to later in the year. Reported operating expense was significantly higher than forecast as a result of the accrual of higher than expected social charges related to the strong gains in our stock price during the quarter. Social Charges came in €126 million higher than planned. Roughly 62% of the variance in Social Charges pertained to the R&D function, while 23% of the variance was in S&M and the remainder in G&A. Excluding the higher than planned social charges, Operating Loss would have finished better than forecast as a result of both outperformance in Gross Profit and lower than planned operating expenses.

At the end of Q2, our workforce consisted of 6,049 FTEs globally.

Social Charges

As a reminder, social costs are payroll taxes associated with employee salaries and benefits, including share-based compensation that we are subject to in various countries in which we operate. When the fair market value of our ordinary shares increases on a quarter-to-quarter basis, the accrued expense for social costs will increase, and when the fair market value of ordinary shares falls, the accrued expense will become a reduction in social costs expense, all other things being equal, including the number of vested stock options and exercise price remaining constant. Additionally, approximately 31% of our employees are in Sweden. With respect to our employees in Sweden, we are required to pay a 31.42% tax to the Swedish government on the profit an employee realizes on the exercise of our stock options or the vesting of our restricted stock units.

Our guidance on the impact of social charges on operating expenses is based on our share price at the end of each quarter. At the Q2 close, our stock price was $258.19. As an example, in Q2 a 10% increase or decrease in FMV compared to the quarter-end price would have an approximate +/- €25M impact on Social Charges. We don't forecast stock price changes in our guidance so upward or downward movements will impact our reported operating expenses relative to our guidance.

Product and Platform

We continue to accelerate product innovation in order to enrich the consumer experience and serve the right content from the more than 60 million unique tracks and more than 1.5 million podcasts on our platform. Through experimentation, we aim to scale features that will lead to improved intake, retention, conversion, and thus higher LTV. For example, we rolled out lyrics this quarter in 26 countries across Southeast Asia, Latin America, and India covering more than 100 million of our users.

We continue to make improvements to our join flow and onboarding experience and have seen a demonstrable improvement to both short term and long term retention as a result. Once on the platform, we constantly add or improve features such as our recent announcement that we have removed the cap on the number of tracks a user can save, now offering the ability to save an unlimited number of songs, albums and podcasts to their collection of favorites (up from a max of 10,000 tracks previously).

With COVID-19 protective measures still in place, we launched a Listening Together microsite that visualizes when two Spotify listeners start to play the same song at the exact same time - which happens on average 30,000 times every second on Spotify. A further enhancement to the user experience, Spotify launched a Group Session feature that allows up to five Premium users to share control over the music being played. Group Session participants can control what's playing in real-time as well as contribute to a collaborative playlist for the group. Another product feature we're experimenting with is Canvas, which turns formerly static song pages into engaging video-art showcases with 8 second visual loops. Spotify users and artists can now share Canvas artwork to Instagram stories, a feature that is unique to the Spotify platform and sharing experience.

Ubiquity remains a core strategy, and we continue to find ways for consumers to seamlessly connect with our platform. This quarter we expanded our Spotify Free offering through Amazon Alexa devices beyond the US, Australia and New Zealand. Amazon Alexa devices will now support Spotify Free in Austria, Brazil, Canada, France, Germany, Ireland, Italy, Japan, Mexico, Spain and the UK. Additionally, we are also excited to be launching Spotify (Free and Premium) on Alexa in India.

Content

Last week we announced a multi-year global license agreement with the world's largest music company, Universal Music Group (UMG), that further aligns the companies' efforts to foster groundbreaking new features providing value for artists and great experiences for music fans. With this new agreement, the companies advance their industry-leading partnership, reflecting a shared commitment to music's continued growth, deeper music discovery experiences and collaboration on new, state-of-the-art marketing campaigns across Spotify's platform.

During Q2, we announced a multi-year exclusive licensing deal with The Joe Rogan Experience, which will debut on Spotify in September 2020 and become exclusive on the platform later this year. Additionally, we announced a multi-year partnership with Warner Bros. and DC to produce and distribute an original slate of narrative scripted podcasts exclusively on Spotify. We are excited about these partnerships and look forward to creating an unrivaled content experience for Spotify listeners.

Harry Potter at Home came to Spotify, an exclusive rendering of the Sorcerer's Stone as read by notable actors, including Daniel Radcliffe, Eddie Redmayne, and Whoopi Goldberg. This content release marks the first multi-market promotional campaign for an audio-story on Spotify. Harry Potter at Home quickly became our #1 O&E show on the platform.

Today, 21% of our Total MAUs engage with podcast content, up from 19% of MAUs in Q1 2020, and consumption continues to grow at triple digit rates Y/Y. We see strong MAU growth in podcast content across all regions for Spotify. Overall supply of new podcast content recovered in Q2 after a slight impact related to COVID-19 in the previous quarter. There have been a healthy number of releases for Catalog, as well as Spotify Originals within the quarter. We launched 110 podcast playlists across 6 markets (including 49 new O&E podcasts outside the US) on a variety of themes and topics to continue to drive podcast discovery for users. Currently, Spotify's podcast catalog has over 1.5 million shows, 50% of which launched in 2020. Our acquisition of Anchor last year has helped accelerate content growth on the platform with approximately three quarters of new podcast releases being powered by Anchor. Spotify announced an additional 9 exclusives like Do You See What I See and Rapot to our Creator Accelerator Program in Indonesia, launched our first original podcast, Search Engine Sex, in Australia, and released our first exclusive, XRey, in Spain.

As COVID-19 has impacted the creator community and the way in which users interact with Spotify, we created user experiences that allow listeners to adapt to the current environment.

Spotify launched an “At Home Music & Podcast Entertainment” hub, which has had over 20M unique visitors. Additionally, we created a “COVID-19 Guide” podcast hub to serve as a resource to those wanting to engage and understand more about COVID-19 related information and topics. As we mentioned last quarter, we launched the Spotify COVID-19 Music Relief project, through which we have partnered with organizations that offer financial relief to those in the music and creator community around the world. We pledged to match dollar-for-dollar public donations made to these organizations, up to a total Spotify contribution of $10 million. We also launched Artist Fundraising Pick (a feature that enables artists to raise money to support themselves, their bands, their crews and charitable organizations) in April, and to date have seen more than 91,000 artists take advantage.

Two-Sided Marketplace

We continue to build out our marketplace offering of tools and services. As stated above, we recently announced a multi-year deal with Universal Music Group and together, we look forward to accelerating our progress in building new tools and offerings that will make a difference for artists around the world. This is one more step in our goal to enable a million creators to live off their work.

The number of artists and their teams utilizing our Spotify for Artists tools on a monthly basis has grown to more than 690,000, growth of 68% Y/Y, and these creators are finding ways to unlock new channels for discovery. Growth in the number of artists making up our top tier (those accounting for the top 90% of streams) is accelerating; that cohort now stands at over 43,000 artists, up 43% from 30,000 one year ago. Our product and platform are driving discovery, diversifying taste, and helping up-and-coming artists reach new audiences. Gone are the days of Top 40, it’s now the Top 43,000. We continue to add new features to our suite of Marketplace products to better serve the needs of these creators and their teams. We also expanded our Sponsored Recommendation functionality to Canada this quarter, and look forward to launching in further markets soon. We also began piloting new targeting features in the Sponsored Recommendation product that allow for more flexibility to suit the unique needs of marketers. Conversion remains high, and the number of artists taking advantage of these features grew more than 37% Q/Q.

Free Cash Flow

Total Free Cash Flow was €27 million in Q2, a €23 million decrease Y/Y principally related to an increase in net loss adjusted for non-cash items, partially offset by favorable working capital movements and lower cash outflow for PP&E related to office build-outs. We maintain positive working capital dynamics overall and continue to expect that we will deliver positive Free Cash Flow for the year.

In addition to the positive Free Cash Flow dynamics, we maintain a strong liquidity position and are confident in the financial position of the business as we look at the current and future uncertainty surrounding the global health crisis. At the end of Q2, we had €1.8 billion in cash

and cash equivalents, restricted cash, and short term investments on our Balance Sheet, and no indebtedness[2].

Q3 & Q4 2020 OUTLOOK

These forward-looking statements reflect Spotify's expectations as of July 29, 2020 and are subject to substantial uncertainty. The estimates below utilize the same methodology we've used in prior quarters with respect to our guidance and the potential range of outcomes. Given the extraordinary operating circumstances we currently face with respect to the impact of COVID-19 there is a greater likelihood of variances within those ranges than typical quarters.

Q3 2020 Guidance:

- **Total MAUs**: 312-317 million
- **Total Premium Subscribers:** 140-144 million
- **Total Revenue:** €1.85-€2.05 billion
    - Assumes approximately 260 bps headwind to growth Y/Y due to movements in foreign exchange rates
- **Gross Margin:** 23.1-25.1%
- **Operating Profit/Loss:** €(70)-€(150) million

Q4 2020 Guidance:

- **Total MAUs**: 328-348 million
- **Total Premium Subscribers:** 146-153 million
- **Total Revenue:** €2.05-€2.25 billion
    - Assumes approximately 360 bps headwind to growth Y/Y due to movements in foreign exchange rates
- **Gross Margin:** 23.7-25.7%
- **Operating Profit/Loss:** €(45)-€(145) million

[2] As of June 30, 2020, we have no material outstanding indebtedness, other than lease liabilities recognized under IFRS 16.

EARNINGS QUESTION & ANSWER SESSION

We will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Paul Vogel, our Chief Financial Officer, will be on hand to answer questions submitted through slido.com using the event code **#SpotifyEarnings**. Participants also may join using the listen-only conference line by registering through the following site:

Direct Event Registration Portal: http://www.directeventreg.com/registration/event/2944914

We use investors.spotify.com and newsroom.spotify.com websites as well as other social media listed in the "Resources – Social Media" tab of our Investors website to disclose material company information.

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Use of Non-IFRS Measures

To supplement our interim condensed consolidated financial statements, which are prepared and presented in accordance with IFRS, we use the following non-IFRS financial measures: Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect, Ad-Supported revenue excluding foreign exchange effect, and Free Cash Flow. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are useful to investors because they present measures that facilitate comparison to our historical performance. However, Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS. Management believes that Free Cash Flow is useful to investors because it presents a measure that approximates the amount of cash generated that is available to repay debt obligations, to make investments, and for certain other activities that exclude certain infrequently occurring and/or non-cash items. However, Free Cash Flow should be considered in addition to, not as a substitute for or superior to, net cash flows (used in)/from operating activities or other financial measures prepared in accordance with IFRS. For more information on these non-IFRS financial measures, please see "Reconciliation of IFRS to Non-IFRS Results" table.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words "may," "might," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "seek," "believe," "estimate," "predict," "potential," "continue," "contemplate," "possible," and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; competition for users and user listening time; our dependence upon third-party licenses for most of the content we stream; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; new copyright legislation that may increase the cost and/or difficulty of music licensing; risks associated with our international expansion, including difficulties obtaining rights to stream content on favorable terms; our ability to generate sufficient

revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to expand our operations to deliver content beyond music, including podcasts; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; risks relating to privacy and protection of user data; our ability to maintain, protect, and enhance our brand; ability to hire and retain key personnel; risks relating to the acquisition, investment, and disposition of companies or technologies; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and the impact of the COVID-19 pandemic on our business and operations, including any adverse impact on advertising revenue or subscriber acquisition and retention. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our estimates and forward-looking statements is included in our filings with the U.S. Securities and Exchange Commission ("SEC"), including our Annual Report on Form 20-F filed with the SEC on February 12, 2020, as updated in our Form 6-K filed with the SEC on April 29, 2020 (containing the interim condensed consolidated financial statements for the three months ended March 31, 2020). We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this shareholder letter.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Six months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue	1,889	1,848	1,667	3,737	3,178
Cost of revenue	1,410	1,376	1,233	2,786	2,371
Gross profit	**479**	**472**	**434**	**951**	**807**
Research and development	267	162	151	429	306
Sales and marketing	248	231	200	479	372
General and administrative	131	96	86	227	179
	646	**489**	**437**	**1,135**	**857**
Operating (loss)/income	**(167)**	**(17)**	**(3)**	**(184)**	**(50)**
Finance income	6	70	8	76	42
Finance costs	(294)	(12)	(64)	(306)	(220)
Finance income/(costs) - net	**(288)**	**58**	**(56)**	**(230)**	**(178)**
Loss before tax	**(455)**	**41**	**(59)**	**(414)**	**(228)**
Income tax (benefit)/expense	(99)	40	17	(59)	(10)
Net (loss)/income attributable to owners of the parent	**(356)**	**1**	**(76)**	**(355)**	**(218)**
(Loss)/Earnings per share attributable to owners of the parent					
Basic	(1.91)	0.00	(0.42)	(1.91)	(1.21)
Diluted	(1.91)	(0.20)	(0.42)	(1.91)	(1.21)
Weighted-average ordinary shares outstanding					
Basic	186,552,877	185,046,324	180,409,115	185,799,600	180,510,763
Diluted	186,552,877	185,632,113	180,409,115	185,799,600	180,510,763

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	June 30, 2020	December 31, 2019
Assets		
Non-current assets		
Lease right-of-use assets	476	489
Property and equipment	287	291
Goodwill	617	478
Intangible assets	86	58
Long term investments	1,725	1,497
Restricted cash and other non-current assets	66	69
Deferred tax assets	13	9
	3,270	**2,891**
Current assets		
Trade and other receivables	361	402
Income tax receivable	4	4
Short term investments	636	692
Cash and cash equivalents	1,148	1,065
Other current assets	115	68
	2,264	**2,231**
Total assets	**5,534**	**5,122**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	4,175	4,192
Treasury shares	(175)	(370)
Other reserves	1,187	924
Accumulated deficit	(3,064)	(2,709)
Equity attributable to owners of the parent	**2,123**	**2,037**
Non-current liabilities		
Lease liabilities	612	622
Accrued expenses and other liabilities	37	20
Provisions	2	2
Deferred tax liabilities	1	2
	652	**646**
Current liabilities		
Trade and other payables	555	549
Income tax payable	4	9
Deferred revenue	349	319
Accrued expenses and other liabilities	1,527	1,438
Provisions	12	13
Derivative liabilities	312	111
	2,759	**2,439**
Total liabilities	**3,411**	**3,085**
Total equity and liabilities	**5,534**	**5,122**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating activities					
Net (loss)/income	(356)	1	(76)	(355)	(218)
Adjustments to reconcile net (loss)/income to net cash flows					
Depreciation of property and equipment and lease right-of-use assets	23	21	17	44	34
Amortization of intangible assets	5	5	3	10	7
Share-based payments expense	50	37	37	87	63
Finance income	(6)	(70)	(8)	(76)	(42)
Finance costs	294	12	64	306	220
Income tax (benefit)/expense	(99)	40	17	(59)	(10)
Other	2	4	(10)	6	(2)
Changes in working capital:					
(Increase)/decrease in trade receivables and other assets	(39)	22	(50)	(17)	(15)
Increase/(decrease) in trade and other liabilities	151	(63)	75	88	230
Increase/(decrease) in deferred revenue	34	(4)	19	30	32
(Decrease)/increase in provisions	—	(1)	8	(1)	8
Interest paid on lease liabilities	(15)	(15)	(9)	(30)	(13)
Interest received	—	3	4	3	8
Income tax paid	(5)	(1)	(1)	(6)	(3)
Net cash flows from/(used in) operating activities	**39**	**(9)**	**90**	**30**	**299**
Investing activities					
Business combinations, net of cash acquired	—	(137)	(36)	(137)	(324)
Purchases of property and equipment	(14)	(12)	(40)	(26)	(77)
Purchases of short term investments	(145)	(498)	(298)	(643)	(402)
Sales and maturities of short term investments	242	477	370	719	753
Change in restricted cash	2	—	—	2	1
Other	(7)	(14)	(3)	(21)	(7)
Net cash flows from/(used in) investing activities	**78**	**(184)**	**(7)**	**(106)**	**(56)**
Financing activities					
Proceeds from exercise of share options	101	77	20	178	53
Repurchases of ordinary shares	—	—	(157)	—	(283)
Payments of lease liabilities	(6)	(4)	(4)	(10)	(9)
Lease incentives received	—	7	—	7	—
Other	(5)	(3)	—	(8)	—
Net cash flows from/(used in) financing activities	**90**	**77**	**(141)**	**167**	**(239)**
Net increase/(decrease) in cash and cash equivalents	**207**	**(116)**	**(58)**	**91**	**4**
Cash and cash equivalents at beginning of the period	951	1,065	966	1,065	891
Net exchange (losses)/gains on cash and cash equivalents	(10)	2	1	(8)	14
Cash and cash equivalents at period end	**1,148**	**951**	**909**	**1,148**	**909**

Calculation of basic and diluted earnings/(loss) per share
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Six months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Basic (loss)/earnings per share					
Net (loss)/income attributable to owners of the parent	(356)	1	(76)	(355)	(218)
Share used in computation:					
Weighted-average ordinary shares outstanding	186,552,877	185,046,324	180,409,115	185,799,600	180,510,763
Basic (loss)/earnings per share attributable to owners of the parent	**(1.91)**	**0.00**	**(0.42)**	**(1.91)**	**(1.21)**
Diluted loss per share					
Net (loss)/income attributable to owners of the parent	(356)	1	(76)	(355)	(218)
Fair value gains on dilutive warrants	—	(38)	—	—	—
Net loss used in the computation of diluted loss per share	**(356)**	**(37)**	**(76)**	**(355)**	**(218)**
Shares used in computation:					
Weighted-average ordinary shares outstanding	186,552,877	185,046,324	180,409,115	185,799,600	180,510,763
Warrants	—	585,789	—	—	—
Diluted weighted-average ordinary shares	**186,552,877**	**185,632,113**	**180,409,115**	**185,799,600**	**180,510,763**
Diluted loss per share attributable to owners of the parent	**(1.91)**	**(0.20)**	**(0.42)**	**(1.91)**	**(1.21)**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
IFRS revenue	1,889	1,667	3,737	3,178
Foreign exchange effect on 2020 revenue using 2019 rates	34		23	
Revenue excluding foreign exchange effect	1,923		3,760	
IFRS revenue year-over-year change %	13%		18%	
Revenue excluding foreign exchange effect year-over-year change %	15%		18%	
IFRS Premium revenue	1,758	1,502	3,458	2,887
Foreign exchange effect on 2020 Premium revenue using 2019 rates	35		27	
Premium revenue excluding foreign exchange effect	1,793		3,485	
IFRS Premium revenue year-over-year change %	17%		20%	
Premium revenue excluding foreign exchange effect year-over-year change %	19%		21%	
IFRS Ad-Supported revenue	131	165	279	291
Foreign exchange effect on 2020 Ad-Supported revenue using 2019 rates	(1)		(4)	
Ad-Supported revenue excluding foreign exchange effect	130		275	
IFRS Ad-Supported revenue year-over-year change %	(21)%		(4)%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	(21)%		(5)%	

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Six months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net cash flows from/(used in) operating activities	39	(9)	90	30	299
Capital expenditures	(14)	(12)	(40)	(26)	(77)
Change in restricted cash	2	—	—	2	1
Free Cash Flow	**27**	**(21)**	**50**	**6**	**223**

October 29, 2020

Dear Shareholders,

The business performed at a high level in Q3. Highlights included strong MAU and subscriber growth, a recovery in global consumption hours, record low churn below 4%, better than expected Gross Margin, and Free Cash Flow of €103 million. Headwinds included negative effects from FX movements which slowed revenue growth by 500 bps on a constant currency basis. Revenue was slightly better than expected excluding the impact of FX. Notably, some of our more mature regions exhibited accelerating user growth, our advertising business returned to growth, and new market launches in Russia and 12 surrounding markets unlocked significant pent-up demand, adding a helpful accelerant to our results.

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q3 2019**	**Q2 2020**	**Q3 2020**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	248	299	320	29%	7%
Premium Subscribers	113	138	144	27%	5%
Ad-Supported MAUs	141	170	185	31%	9%
FINANCIALS (€M)					
Premium	1,561	1,758	1,790	15%	2%
Ad-Supported	170	131	185	9%	41%
Total Revenue	**1,731**	**1,889**	**1,975**	**14%**	**5%**
Gross Profit	441	479	489	11%	2%
Gross Margin	**25.5%**	**25.4%**	**24.8%**	**--**	**--**
Operating Income/(Loss)	**54**	**(167)**	**(40)**	**--**	**--**
Operating Margin	3.1%	(8.8%)	(2.0%)	--	--
Net cash flows from operating activities	71	39	122	72%	--
Free Cash Flow[1]	**48**	**27**	**103**	**115%**	**--**

[1] Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

MONTHLY ACTIVE USERS ("MAUs")

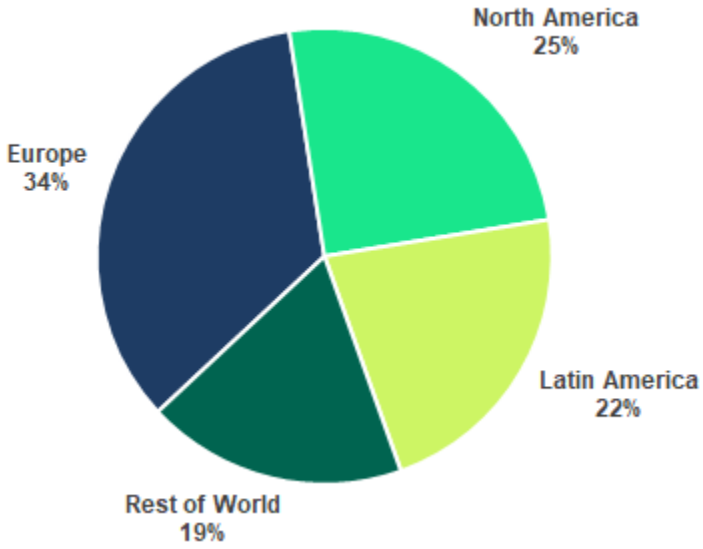
Total MAUs grew 29% Y/Y to 320 million in the quarter and above the top end of our guidance range. From a regional perspective, Y/Y growth in North America and Europe accelerated more than 400 bps and 100 bps, respectively, while Latin America and Rest of World continued to see the fastest growth, growing 30% and 51%, respectively. The MAU outperformance was bouyed by India, which benefited from successful marketing campaigns, as well as stronger than expected results from our July launches in Russia, CIS, and the Balkans, with Russia serving as the largest upside driver. We are particularly encouraged by our MAU strength this quarter, as it supports the long-term health of our customer acquisition funnel and gives us confidence as we continue to expand into new markets.

Both Latin America and Rest of World had MAU growth in line with, or ahead of, our Q3 forecast. Exiting Q2 we had seen easing COVID pressures in parts of Latin America and Rest of World and this trend continued into Q3. In parts of Latin America, we observed churn improvement and support from new product offerings. Thanks to continued product updates and user flow improvements, we are seeing strong upward trends in new user retention within emerging markets.

While we saw outperformance in Europe in aggregate, we did see a slight shift in Q3 seasonality among a few of our larger markets as we believe summer demand may have been pulled forward into the March and April lockdown periods.

From a content consumption standpoint, global consumption hours surpassed pre-COVID levels during the quarter, and all regions have fully recovered. Consumption trends by platform have returned to normal usage, including in-car listening hours which is now above the pre-COVID peak. Usage on connected devices inside the home, which saw a spike during lockdown, also remains above pre-COVID levels.

Total MAUs by Region



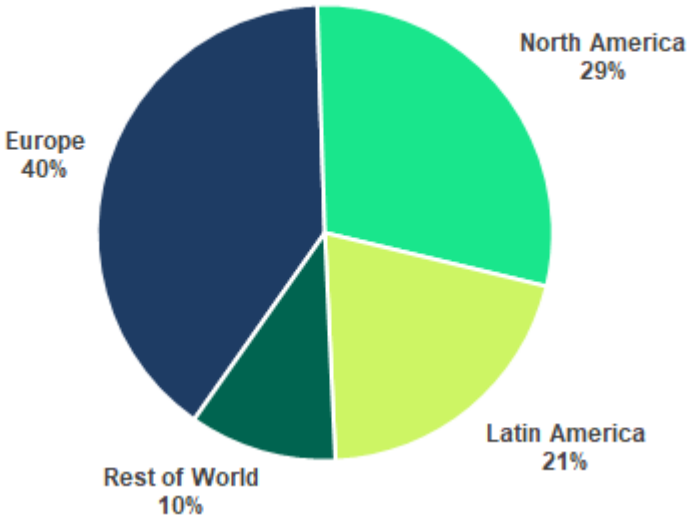
PREMIUM SUBSCRIBERS

Our Premium Subscribers grew 27% Y/Y to 144 million in the quarter, reaching the top end of our guidance range. We saw strong subscriber growth across all regions, with added benefit from our new market launches in Russia and surrounding territories. Russia has been our most successful new market launch to date and represented the largest portion of subscriber outperformance for the quarter. Additionally, we saw strong performance from the global rollout of our Duo product, with the Duo subscriber growth exceeding our expectations.

Other items of note this quarter included the Google Nest Mini promotion in the UK and Canada, which exceeded our forecast while enhancing our product's ubiquity, retention, and engagement. We also entered into strategic mobile telco partnerships in Russia (with MTS) and Indonesia (with Telkomsel).

Our average monthly Premium churn rate for the quarter fell below 4% for the first time, marking an 89 bps improvement Y/Y and 49 bps sequentially, driven by churn improvement across all product offerings.

Subscribers by Region



FINANCIAL METRICS

Revenue

Total revenue of €1,975 million grew 14% Y/Y in Q3 or 19% Y/Y on a constant currency basis (excluding the impact of FX movements). Reported revenue was at the midpoint of our guidance range, as FX headwinds of approximately 500 bps meaningfully exceeded the 260 bps of headwinds incorporated into our plan. The depreciation of the US Dollar vs. the Euro was the primary driver of this variance. Premium revenue grew 15% Y/Y to €1,790 million (or 20% Y/Y in constant currency terms) while Ad-Supported revenue rebounded nicely, growing 9% Y/Y (or 15% Y/Y in constant currency terms).

Within Premium, average revenue per user ("ARPU") of €4.19 in Q3 was down 10% Y/Y (or down 6% Y/Y in constant currency terms). Excluding FX, product mix accounted for the majority of the ARPU decline, followed by geographic mix. In October, we elected to raise the price of the Family Plan in 7 markets (Australia, Belgium, Switzerland, Bolivia, Peru, Ecuador, and Colombia) alongside Duo in Colombia.

Ad-Supported revenue of €185 million outperformed our forecast, exhibiting a return to growth following the impact of the global pandemic in Q2. We experienced positive Y/Y revenue growth during each month of the quarter, with September finishing particularly strong as business activity moved towards a more normalized state. The rebound was led by our Podcast and Ad Studio channels, which grew in the strong double digit range on a Y/Y basis. Notably, the recent rollout of video in Ad Studio exceeded expectations and post Q3, Ad Studio was rolled out for the first time ever in non-English language markets (Spain and Mexico).

Gross Margin
Gross Margin finished at 24.8% in Q3, toward the top end of our guidance range. A number of factors drove the positive Gross Margin variance, led by better than forecast non-music content costs and Other Cost of Revenues (e.g. payment fees, streaming delivery costs).

Premium Gross Margin was 27.3% in Q3, down slightly from 28.1% in Q2 and up 40 bps Y/Y. Ad-Supported Gross Margin was 0.6% in Q3, up from (11.9)% in Q2 and down 1,200 bps Y/Y. As a reminder, we now account for all content costs related to podcast investment in the Ad-Supported business.

Operating Expenses / Income (Loss)
Operating expenses totaled €529 million in Q3, an increase of 37% Y/Y but short of our plan. Lower than forecast Social Charges accounted for more than half of the shortfall given the decline in our share price during the quarter and lower than expected grants of new equity. Additionally, certain marketing expenses came in lower than expected due to campaign timing shifts and movements in FX. On a Y/Y basis, the growth in operating expenses includes the launch of a global marketing campaign in 2020.

As a reminder, Social Charges are payroll taxes associated with employee salaries and benefits, including share-based compensation. We are subject to social taxes in several countries in which we operate, although Sweden accounts for the bulk of the social costs. We don't forecast stock price changes in our guidance so upward or downward movements will impact our reported operating expenses.

At the end of Q3, our workforce consisted of 6,357 FTEs globally.

Product and Platform
As a company, our goal is to continually innovate, testing new features and conducting numerous experiments each quarter as a way to increase connections between creators and listeners while enhancing customer engagement, retention, and LTV. This quarter, we enhanced our lyrics functionality with a long awaited feature, Lyrics Search. We also added mixed media formats, such as the launch of the Daily Sports playlist, which combines sports commentary and personalities alongside personalized music recommendations.

Additionally, we revamped our podcast charts experience, which is live in 26 markets and gives users the opportunity to see what podcasts are trending. We also have expanded the mixed media playlist Your Daily Drive to users in the UK and Ireland, bringing a personalized mix of news podcasts and music to users, updated daily. Furthermore, we announced that podcast listeners can connect even more deeply with hosts through video podcasts allowing for a more meaningful user experience.

Content
We continue to lean into our goal of becoming the world's number one audio platform through compelling new music releases and exclusive creative non-music content. As of Q3, we had 1.9

million podcasts on the platform (up from more than 1.5 million podcasts in Q2). Of note, 22% of our Total MAUs engaged with podcast content in Q3 (up from 21% of MAUs in Q2 2020).

Q3 was a standout quarter for our podcasting efforts, beginning with the July launch of The Michelle Obama Podcast, an Original & Exclusive ("O&E") podcast that became the #1 show globally on our platform in July and August, making it our top summer podcast. In September, The Joe Rogan Experience arrived on platform with video capability and became the #1 show in all of our English-speaking markets while outperforming our audience expectations. We look forward to the start of our exclusivity period for this podcast by the end of this year.

Other select O&E content launches in the US included Mama Knows Best with influencer Addison Rae (Parcast), Best Kept Secrets with Lele Pons (Spotify Studios), 10 Questions with Kyle Brandt (The Ringer), and How to Save a Planet (Gimlet). Internationally, we released 58 new O&E podcasts, bringing our O&E offerings to a total of 16 markets. Select launches included our Southeast Asia original Nas Talks hosted by influencer Nuseir Yassan, international adaptations from Parcast studios with Horoscopes Today in India and Serial Killers in Indonesia, and 9 podcast exclusives in the Philippines.

We also announced that the first title of our DC Comics partnership will be Batman Unburied (to be written and produced by David Goyer), unveiled our first multi-year Esports partnership with Riot Games' League of Legends (including exclusive and original podcast content), and announced a multi-year first-look deal with Chernin Entertainment to develop our owned podcast IP into film, television, and digital series projects in an effort to attract and reward podcast creators.

Despite the challenges stemming from the COVID-19 pandemic, we saw a 13% increase in new music releases compared with Q2 on our platform. This was led by Taylor Swift's *folklore* album, which set a Spotify record for the most first day album streams by a female artist while making Taylor Swift the most streamed artist on Spotify on any day this year. BTS also released their first all-English-language single *Dynamite* in August and had the biggest first day globally on Spotify for a single in 2020.

Two-Sided Marketplace

We continue to work towards our goal of building a diversified digital services platform enabling creator teams to connect, create, and grow their audiences on our platform. In late July, we took another step towards advancing this initiative through the announcement of our partnership with Universal Music Group to help build out new tools and offerings, which is now underway.

The number of artists and their teams utilizing our Spotify for Artists tools on a monthly basis has grown to more than 750,000 and we continue to add new features for the creator community. This quarter, Spotify for Artists introduced Promo Cards, a new tool that allows creators to make shareable social media assets for songs, albums, podcasts, and artist profiles. On July 31, we merged Spotify Analytics — our data tool for labels and distributors — into Spotify for Artists, to establish one unified fan development platform for the music industry.

Artists, managers, labels, and distributors can now manage artist profiles, view and analyze listening data, pitch to playlists, and promote their music all together in one service.

Given this unprecedented time in the industry, we added three new fundraising options to the Artist Fundraising Pick feature, offering better support for artists in Latin America, Turkey, and New Zealand to amplify their fundraising efforts on their Spotify profiles. Additionally, in September we launched support for artist teams to promote their virtual events on their Spotify profile and our Concerts hub, spaces that previously only featured in-person events.

Our sponsored recommendations continue to gain traction, helping music marketers target listeners based on their streaming behavior to shift users into an active listening session of their content. During Q3, we saw a 76% increase in unique customers relative to Q2, and we retained 74% of customers from Q2, which we believe is a good sign of customer satisfaction. We saw demand from both the Major labels and Indies, with Q3 campaigns including Taylor Swift, Machine Gun Kelly, and John Legend. We continue to expand the targeting capabilities for these sponsored recommendations, allowing music marketers to segment their audience by listening behavior, data that is unique to Spotify.

Free Cash Flow

Free Cash Flow was €103 million in Q3, a €55 million increase Y/Y principally related to favorable working capital movements and reduced cash outflow for PP&E related to office build-outs, partially offset by increased net loss adjusted for non-cash items. We maintain positive working capital dynamics overall and continue to expect that we will deliver positive Free Cash Flow for the year.

In addition to the positive Free Cash Flow dynamics, we maintain a strong liquidity position and are confident in the financial position of the business as we look at the current and future uncertainty surrounding the global health crisis. At the end of Q3, we had €2.0 billion in cash and cash equivalents, restricted cash, and short term investments and no indebtedness[2].

Q4 2020 OUTLOOK

These forward-looking statements reflect Spotify's expectations as of October 29, 2020 and are subject to substantial uncertainty. The estimates below utilize the same methodology we've used in prior quarters with respect to our guidance and the potential range of outcomes. Given the extraordinary operating circumstances we currently face with respect to the impact of COVID-19 there is a greater likelihood of variances within those ranges than typical quarters.

[2] As of September 30, 2020, we have no material outstanding indebtedness, other than lease liabilities recognized under IFRS 16.

Q4 2020 Guidance:

- **Total MAUs**: 340-345 million
- **Total Premium Subscribers:** 150-154 million
- **Total Revenue:** €2.00-€2.20 billion
    - Assumes approximately 600 bps headwind to growth Y/Y due to movements in foreign exchange rates (prior guidance assumed 360 bps headwind)
- **Gross Margin:** 24.2-26.2%
- **Operating Profit/Loss:** €(112)-€(32) million

EARNINGS QUESTION & ANSWER SESSION

We will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Paul Vogel, our Chief Financial Officer, will be on hand to answer questions submitted through slido.com using the event code **#SpotifyEarningsQ320**. Participants also may join using the listen-only conference line by registering through the following site:

Direct Event Registration Portal: http://www.directeventreg.com/registration/event/8742167

We use investors.spotify.com and newsroom.spotify.com websites as well as other social media listed in the "Resources – Social Media" tab of our Investors website to disclose material company information.

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Use of Non-IFRS Measures

To supplement our interim condensed consolidated financial statements, which are prepared and presented in accordance with IFRS, we use the following non-IFRS financial measures: Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect, Ad-Supported revenue excluding foreign exchange effect, and Free Cash Flow. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are useful to investors because they present measures that facilitate comparison to our historical performance. However, Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS. Management believes that Free Cash Flow is useful to investors because it presents a measure that approximates the amount of cash generated that is available to repay debt obligations, to make investments, and for certain other activities that exclude certain infrequently occurring and/or non-cash items. However, Free Cash Flow should be considered in addition to, not as a substitute for or superior to, net cash flows (used in)/from operating activities or other financial measures prepared in accordance with IFRS. For more information on these non-IFRS financial measures, please see "Reconciliation of IFRS to Non-IFRS Results" table.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “seek,” “believe,” “estimate,” “predict,” “potential,” “continue,” “contemplate,” “possible,” and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existing users; competition for users and user listening time; our dependence upon third-party licenses for most of the content we stream; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about music compositions in order to obtain necessary licenses or perform obligations under our existing license agreements; new copyright legislation that may increase the cost and/or difficulty of music licensing; risks associated with our international expansion, including difficulties obtaining rights to stream content on favorable terms; our ability to generate sufficient revenue to be profitable or to generate positive cash flow on a sustained basis; our ability to expand our operations to deliver content beyond music, including podcasts; potential breaches of our security systems; assertions by third parties of infringement or other violations by us of their intellectual property rights; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; changes in legislation or governmental regulations affecting us; risks relating to privacy and protection of user data; our ability to maintain, protect, and enhance our brand; ability to hire and retain key personnel; risks relating to the acquisition, investment, and disposition of companies or technologies; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; and risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and the impact of the COVID-19 pandemic on our business and operations, including any adverse impact on advertising revenue or subscriber acquisition and retention. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our estimates and forward-looking statements is included in our filings with the U.S. Securities and Exchange Commission (“SEC”), including our Annual Report on Form 20-F filed with the SEC on February 12, 2020, as updated in our Form 6-K filed with the SEC on July 29, 2020 (containing the interim condensed consolidated financial statements for the three months ended June 30, 2020). We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this shareholder letter.

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue	1,975	1,889	1,731	5,712	4,909
Cost of revenue	1,486	1,410	1,290	4,272	3,661
Gross profit	**489**	**479**	**441**	**1,440**	**1,248**
Research and development	176	267	136	605	442
Sales and marketing	256	248	178	735	550
General and administrative	97	131	73	324	252
	529	**646**	**387**	**1,664**	**1,244**
Operating (loss)/income	**(40)**	**(167)**	**54**	**(224)**	**4**
Finance income	14	6	226	90	268
Finance costs	(90)	(294)	(10)	(396)	(230)
Finance income/(costs) - net	**(76)**	**(288)**	**216**	**(306)**	**38**
(Loss)/income before tax	**(116)**	**(455)**	**270**	**(530)**	**42**
Income tax (benefit)/expense	(15)	(99)	29	(74)	19
Net (loss)/income attributable to owners of the parent	**(101)**	**(356)**	**241**	**(456)**	**23**
(Loss)/Earnings per share attributable to owners of the parent					
Basic	(0.53)	(1.91)	1.34	(2.44)	0.13
Diluted	(0.58)	(1.91)	0.36	(2.44)	0.09
Weighted-average ordinary shares outstanding					
Basic	188,842,828	186,552,877	179,863,596	186,821,414	180,292,670
Diluted	189,054,064	186,552,877	188,477,554	186,821,414	185,788,598

Condensed consolidated statement of financial position
(Unaudited)
(in € millions)

	September 30, 2020	December 31, 2019
Assets		
Non-current assets		
Lease right-of-use assets	459	489
Property and equipment	299	291
Goodwill	595	478
Intangible assets	82	58
Long term investments	1,811	1,497
Restricted cash and other non-current assets	66	69
Deferred tax assets	13	9
	3,325	**2,891**
Current assets		
Trade and other receivables	392	402
Income tax receivable	4	4
Short term investments	719	692
Cash and cash equivalents	1,182	1,065
Other current assets	142	68
	2,439	**2,231**
Total assets	**5,764**	**5,122**
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	4,539	4,192
Treasury shares	(175)	(370)
Other reserves	1,267	924
Accumulated deficit	(3,165)	(2,709)
Equity attributable to owners of the parent	**2,466**	**2,037**
Non-current liabilities		
Lease liabilities	592	622
Accrued expenses and other liabilities	39	20
Provisions	2	2
Deferred tax liabilities	1	2
	634	**646**
Current liabilities		
Trade and other payables	615	549
Income tax payable	5	9
Deferred revenue	363	319
Accrued expenses and other liabilities	1,600	1,438
Provisions	20	13
Derivative liabilities	61	111
	2,664	**2,439**
Total liabilities	**3,298**	**3,085**
Total equity and liabilities	**5,764**	**5,122**

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating activities					
Net (loss)/income	(101)	(356)	241	(456)	23
Adjustments to reconcile net (loss)/income to net cash flows					
Depreciation of property and equipment and lease right-of-use assets	21	23	17	65	51
Amortization of intangible assets	7	5	5	17	12
Share-based payments expense	46	50	31	133	94
Finance income	(14)	(6)	(226)	(90)	(268)
Finance costs	90	294	10	396	230
Income tax (benefit)/expense	(15)	(99)	29	(74)	19
Other	(3)	2	1	3	(1)
Changes in working capital:					
(Increase)/decrease in trade receivables and other assets	(76)	(39)	2	(93)	(13)
Increase in trade and other liabilities	155	151	2	243	232
Increase in deferred revenue	20	34	12	50	44
Increase/(decrease) in provisions	7	—	(44)	6	(36)
Interest paid on lease liabilities	(13)	(15)	(12)	(43)	(25)
Interest received	—	—	4	3	12
Income tax paid	(2)	(5)	(1)	(8)	(4)
Net cash flows from operating activities	**122**	**39**	**71**	**152**	**370**
Investing activities					
Business combinations, net of cash acquired	—	—	(7)	(137)	(331)
Purchases of property and equipment	(17)	(14)	(26)	(43)	(103)
Purchases of short term investments	(305)	(145)	(268)	(948)	(670)
Sales and maturities of short term investments	197	242	245	916	998
Change in restricted cash	(2)	2	3	—	4
Other	(7)	(7)	(4)	(28)	(11)
Net cash flows (used in)/from investing activities	**(134)**	**78**	**(57)**	**(240)**	**(113)**
Financing activities					
Proceeds from exercise of share options	96	101	30	274	83
Proceeds from the issuance of warrants	—	—	15	—	15
Repurchases of ordinary shares	—	—	(125)	—	(408)
Payments of lease liabilities	(6)	(6)	(4)	(16)	(13)
Lease incentives received	6	—	15	13	15
Other	(11)	(5)	(4)	(19)	(4)
Net cash flows from/(used in) financing activities	**85**	**90**	**(73)**	**252**	**(312)**
Net increase/(decrease) in cash and cash equivalents	**73**	**207**	**(59)**	**164**	**(55)**
Cash and cash equivalents at beginning of the period	1,148	951	909	1,065	891
Net exchange (losses)/gains on cash and cash equivalents	(39)	(10)	27	(47)	41
Cash and cash equivalents at period end	**1,182**	**1,148**	**877**	**1,182**	**877**

Calculation of basic and diluted (loss)/earnings per share
(Unaudited)
(in € millions, except share and per share data)

	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Basic (loss)/earnings per share					
Net (loss)/income attributable to owners of the parent	(101)	(356)	241	(456)	23
Share used in computation:					
Weighted-average ordinary shares outstanding	188,842,828	186,552,877	179,863,596	186,821,414	180,292,670
Basic (loss)/earnings per share attributable to owners of the parent	**(0.53)**	**(1.91)**	**1.34**	**(2.44)**	**0.13**
Diluted (loss)/earnings per share					
Net (loss)/income attributable to owners of the parent	(101)	(356)	241	(456)	23
Fair value gains on dilutive warrants	(9)	—	(173)	—	(7)
Net (loss)/earnings used in the computation of diluted loss per share	**(110)**	**(356)**	**68**	**(456)**	**16**
Shares used in computation:					
Weighted-average ordinary shares outstanding	188,842,828	186,552,877	179,863,596	186,821,414	180,292,670
Warrants	211,236	—	3,867,477	—	563,692
Share options	—	—	4,436,345	—	4,680,634
Restricted stock units	—	—	157,623	—	125,197
Restricted stock awards	—	—	50,623	—	47,223
Other contingently issuable shares	—	—	101,890	—	79,182
Diluted weighted-average ordinary shares	**189,054,064**	**186,552,877**	**188,477,554**	**186,821,414**	**185,788,598**
Diluted (loss)/earnings per share attributable to owners of the parent	**(0.58)**	**(1.91)**	**0.36**	**(2.44)**	**0.09**

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
IFRS revenue	1,975	1,731	5,712	4,909
Foreign exchange effect on 2020 revenue using 2019 rates	89		112	
Revenue excluding foreign exchange effect	2,064		5,824	
IFRS revenue year-over-year change %	14%		16%	
Revenue excluding foreign exchange effect year-over-year change %	19%		19%	
IFRS Premium revenue	1,790	1,561	5,248	4,448
Foreign exchange effect on 2020 Premium revenue using 2019 rates	79		106	
Premium revenue excluding foreign exchange effect	1,869		5,354	
IFRS Premium revenue year-over-year change %	15%		18%	
Premium revenue excluding foreign exchange effect year-over-year change %	20%		20%	
IFRS Ad-Supported revenue	185	170	464	461
Foreign exchange effect on 2020 Ad-Supported revenue using 2019 rates	10		6	
Ad-Supported revenue excluding foreign exchange effect	195		470	
IFRS Ad-Supported revenue year-over-year change %	9%		1%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	15%		2%	

Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net cash flows from operating activities	122	39	71	152	370
Capital expenditures	(17)	(14)	(26)	(43)	(103)
Change in restricted cash	(2)	2	3	—	4
Free Cash Flow	**103**	**27**	**48**	**109**	**271**

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Spotify Technology S.A. Announces Financial Results for First Quarter 2021

04/28/2021

NEW YORK--(BUSINESS WIRE)-- Spotify Technology S.A. (NYSE:SPOT) today reported financial results for the first fiscal quarter of 2021 ending March 31, 2021.

This press release features multimedia. View the full release here: https://www.businesswire.com/news/home/20210428005327/en/

SUMMARY USER AND FINANCIAL METRICS

				% Change	
USERS (M)	**Q1 2020**	**Q4 2020**	**Q1 2021**	**Y/Y**	**Q/Q**
Total Monthly Active Users ("MAUs")	286	345	356	24%	3%
Premium Subscribers	130	155	158	21%	2%
Ad-Supported MAUs	163	199	208	27%	4%
FINANCIALS (€M)					
Premium	1,700	1,887	1,931	14%	2%
Ad-Supported	148	281	216	46%	(23%)
Total Revenue	**1,848**	**2,168**	**2,147**	**16%**	**(1%)**
Gross Profit	472	575	548	16%	(5%)
Gross Margin	**25.5%**	**26.5%**	**25.5%**	--	--
Operating (Loss)/Income	**(17)**	**(69)**	**14**	--	--
Operating Margin	(0.9%)	(3.2%)	0.7%	--	--
Net cash flows from operating activities	(9)	107	**65**	--	(39%)
Free Cash Flow[1]	**(21)**	**74**	**41**	--	**(45%)**

(Graphic: Business Wire)

Dear Shareholders,

We are pleased with our performance in Q1. The business delivered subscriber growth and Gross Margin at the top end of our guidance range, a continued improvement in ARPU, and operating income better than plan. We saw greater MAU variability this quarter, but results were within our range of expectations given the outperformance in Q4 and the continued impact from COVID-19. Revenue grew by 16% (22% excluding the impact of FX) and was at the upper end of our guidance range. Other highlights from the quarter include a successful launch in 86 new markets, a $1.5 billion Exchangeable Notes offering, and the acquisition of Betty Labs (Locker Room).

MONTHLY ACTIVE USERS (“MAUs”)

Total MAUs grew 24% Y/Y to 356 million in the quarter, finishing within our guidance range but modestly below our internal expectations. In Q1, we added 11 million MAUs, which drove healthy double digit Y/Y growth across all regions. We saw meaningful contributions from markets such as the US, Mexico, Russia, and India. However, growth was lower than plan in Latin America and Europe. In aggregate, the performance of our newly launched markets was in line with our expectations.

Global consumption hours continued to grow meaningfully in Q1 on a Y/Y basis. Per user consumption grew in developed regions such as North America and Europe, while developing regions showed signs of improvement but remained below pre-COVID levels.

PREMIUM SUBSCRIBERS

Our Premium Subscribers grew 21% Y/Y to 158 million in the quarter, hitting the top end of our guidance range. In Q1, we added nearly 4 million subscribers, which drove healthy double digit Y/Y growth across all regions and was strong relative to a tough promotional comparison from Q1 last year. The subsc outperformance was fairly broad based and led by North America, where we saw stronger than expected performance of Trials & Campaigns and faster

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anticipated growth in our Standard product. In Latin America, we saw outperformance driven by the continued success of our Family Plan product. We are pleased with the new market contributions, with South Korea being the biggest driver.

Our average monthly Premium churn rate for the quarter was down modestly Y/Y and flat Q/Q. The Y/Y improvement continues to be driven by the adoption of our higher retention offerings like Family Plan in addition to growth in high retention regions.

FINANCIAL METRICS

Revenue

Total revenue of €2,147 million grew 16% Y/Y in Q1 (22% Y/Y on a constant currency basis). Reported revenue was toward the top end of our guidance range due to subscriber outperformance, slightly lower headwinds from FX (600 bps impact vs. 770 bps incorporated into our plan), and advertising strength. The FX impact was primarily driven by the Y/Y US dollar weakness vs. the Euro. Premium revenue grew 14% Y/Y to €1,931 million (or 19% Y/Y in constant currency terms) while Ad-Supported revenue was particularly strong, growing 46% Y/Y to €216 million (or 57% Y/Y in constant currency terms).

Within Premium, average revenue per user ("ARPU") of €4.12 in Q1 was down 7% Y/Y (but down only 1% Y/Y in constant currency terms vs. down 3% Y/Y in Q4). Excluding FX, product mix accounted for the majority of the ARPU decline. To date, we have raised prices across a variety of our Premium offerings in over 30 markets and early results have shown no material impacts to gross intake or cancellation rates. On April 26th, we announced price increases for various subscription products in 12 additional markets, including the United States (Family Plan), United Kingdom (Student, Family, and Duo Plans), and Brazil (Full Portfolio).

Ad-Supported revenue outperformed our forecast with all regions growing double digits Y/Y excluding the impact of FX. The strength in Ad-Supported revenue was led by our Podcast and Programmatic channels, with the former benefiting from the acquisitions of Megaphone and The Ringer along with our exclusive licensing of the Joe Rogan Experience. Spotify Ad Studio grew substantially Y/Y, and we continued to expand the self-serve offering to more markets (France, Germany, and Italy) and began beta testing podcast inventory ad buying on Spotify Ad Studio in the US. Additionally, in April, we expanded Streaming Ad Insertion ("SAI") from the US, Canada, United Kingdom, and Germany to also include Australia and Sweden.

In February, we announced the Spotify Audience Network, a first-of-its-kind audio advertising marketplace which connects advertisers to listeners across Spotify Owned & Exclusive ("O&E") podcasts, podcasts from enterprise publishers via Megaphone, podcasts from emerging creators via Anchor, and ad-supported music. The Spotify Audience Network bundles multiple shows for advertisers to buy specific audiences using our proprietary SAI technology. We believe this shift will provide advertisers much greater reach and efficiency while creators gain a much greater monetization opportunity.

Gross Margin

Gross Margin finished at 25.5% in Q1, at the top end of our guidance range and flat Y/Y. While we continue to see strong revenue growth in podcast and non-music revenue, our non-music costs continue to grow at a slightly faster rate which is a modest drag on our Gross Margin. We did see improvements in Other Cost of Revenue (e.g. payment fees, streaming delivery costs) which offset the content spend increase.

Premium Gross Margin was 27.9% in Q1, down 42 bps Y/Y and Ad-Supported Gross Margin was 4.4% in Q1, up 1,100 bps Y/Y. As a reminder, all content costs related to podcast investment are included in the Ad-Supported business for the current and historical periods.

Operating Expenses / Income (Loss)

Operating Expenses totaled €534 million in Q1, an increase of 9% Y/Y and below our plan. Social Charges were approximately €35 million lower than forecast due to a decrease in our share price during the quarter, accounting for the majority of our Operating Expense variance. Excluding the impact of our share price volatility, Operating Expenses grew less than forecast at 14% Y/Y. Certain marketing expenses came in lower than expected due to campaign timing shifts, which were partially offset by higher than expected personnel expenses.

As a reminder, Social Charges are payroll taxes associated with employee salaries and benefits, including share-based compensation. We are subject to social taxes in several countries in which we operate, although Sweden accounts for the bulk of the social costs. We don't forecast stock price changes in our guidance so upward or downward movements will impact our reported operating expenses.

At the end of Q1, our workforce consisted of 6,794 FTEs globally.

Product and Platform

On March 29, 2021, we acquired Betty Labs, the creators of Locker Room, a live audio app that's changing the way insiders and fans talk about sports. This acquisition builds on our work to create "future formats of audio" and will accelerate Spotify's entry into the live audio space. We plan to evolve and expand Locker Room into an enhanced live audio experience for a wider range of creators and fans. Through this new live experience, Spotify will offer a range of sports, music, and cultural programming, as well as a host of interactive features that will enable creators to connect with audiences in real time. We intend to give professional athletes, writers, musicians, songwriters, podcasters, and other global voices opportunities to host real-time discussions, debates, ask me anything (AMA) sessions, and more.

During the quarter, Spotify launched multiple upgrades, including a new Desktop App and Web Player redesign that makes the user experience and nav
easier than ever by combining a modern scalable web player together with a cohesive Spotify design. Additionally, our web platform includes 36 new lar
(62 in total), which also will be rolled out to the mobile app, allowing Spotify to reach more audiences.

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We also began testing Podcast Topic Search in the US, which enables listeners to search for podcasts by theme and topic in an effort to make discovering new content easier than ever. In February, we announced a new partnership between Anchor and WordPress to generate opportunities for content creators to evolve their work and reach new audiences through the power of audio. With this new tool, bloggers can publish their written content as a podcast with just a few clicks —and podcasters can create a website for their podcast just as easily. This offers a whole new group of creators—those who have historically focused on the written word—to access an entirely new audience via audio and share their voices on Spotify.

We remain focused on our ubiquity strategy and continue to expand support for Spotify across a variety of platforms and markets. With the expansion of our footprint into non-music content, we also have expanded support for video podcasts on AppleTV (including AirPlay2), LG, and Comcast. At the end of Q1, users in 10 additional markets, including Sweden, Australia, and Chile, can now ask Alexa to play podcasts from Spotify. Additionally, PlayStation's PS4 and PS5 consoles now support Spotify in 5 new markets, including Russia, Ukraine, Croatia, Slovenia, and Israel.

Post Q1, we announced a limited launch of Car Thing to eligible US users. Car Thing is a smart player that allows users to more seamlessly engage with Spotify music, news, entertainment, talk, and more in the car. We also launched a joint partnership with Facebook to create an integrated ecosystem with a miniplayer experience driven by social discovery that allows listeners to enjoy audio from Spotify directly within Facebook, without switching between apps. Additionally, we announced new ways for podcast creators to monetize their work with the rollout of Spotify's Paid Subscriptions, the Spotify Open Access Platform, and utilization of the Spotify Audience Network for independent creators. These initiatives provide creators with different options to monetize their work, which allows them to continue to grow their audiences and create meaningful revenue streams.

Content

At the end of Q1, we had 2.6 million podcasts on the platform (up from more than 2.2 million podcasts by the end of Q4). The percentage of MAUs that engaged with podcast content on our platform was consistent with Q4 levels. From a consumption standpoint, we saw a strong increase in Q1 podcast consumption hours vs. Q4, with March activity driving an all-time high in terms of podcast share of overall platform consumption hours.

The Joe Rogan Experience performed above expectations with respect to new user additions and engagement. Notable Q1 content launches in the US included Renegades: Born in the USA (Higher Ground), Unlocking Us with Brene Brown (Parcast), Ringer Dish Feed - Taylor Swift (The Ringer), and Welcome To Your Fantasy (Gimlet). Renegades: Born in the USA, featuring former President Barack Obama and Bruce Springsteen, was the second largest podcast on Spotify in March (on an MAU basis) and has been our most international show to-date, with listenership extending across more than 150 countries. Internationally, we released 55 new O&E podcasts. Select launches included a Japanese original Juju Talk, which was a major driver of user acquisition in the country, as well as our first daily new original in Germany, FOMO - was hab ich heute verpasst (what did I miss today?). Additionally, we launched our first slate of 7 Spotify Originals in the Philippines, with topics ranging from gaming to well-being, featuring personalities like Pia Wurtzbach and Donnalyn Bartolome.

On the music front, key Q1 releases included Olivia Rodrigo's single, drivers license, which set the Spotify record for most streams in a day for a non-holiday song with over 15 million global streams on January 11. Additional releases include Arlo Parks' album, Collapsed in Sunbeams, as well as Selena Gomez's EP, Revelación. Daft Punk and Spotify partnered to celebrate the 20th anniversary of their highly acclaimed 2001 opus Discoverywith an enhanced playlist experience after the announcement of the duo splitting up. The playlist included exclusive Canvas and Storylines for every track on the album, and since the start of the campaign, Daft Punk has seen a double digit increase in follows on-platform.

Two-Sided Marketplace

Sponsored Recommendations have shown strong growth and are becoming an essential part of new release marketing strategies for artists and labels. Q1 was the biggest quarter yet for Sponsored Recommendations, with an 11% increase over campaign volume from last quarter and a 10% increase in new customers vs. Q4. In an effort to expand and evolve Sponsored Recommendations, we expanded into Australia and New Zealand and have now made this tool available for singles. Additionally, we began the rollout of a self-serve buying experience for Sponsored Recommendations to select artist and label teams in the US.

At our Stream On event, we announced that we're testing a new commercial tool called Discovery Mode with a small group of labels that enables artists to better reach new audiences on Spotify. To ensure the tool is accessible to artists at any stage of their careers, it will not require any upfront budget and instead, labels or rights holders agree to be paid a promotional recording royalty rate for streams in personalized listening sessions where we provided this service. Early results from the labels participating have been positive with participating labels seeing a 30% increase in streams for content opted in on average.

This quarter, we announced that all artists now have access to our popular feature, Canvas, through Spotify for Artists. The Canvas for Rodrigo's drivers license was shared from Spotify to Instagram Stories over 243,000 times in its first week alone and was viewed more than 50 million times in its first three weeks. Artists at every stage of their career have used Canvas, and we now have over 1 million Canvases live on Spotify.

In Q1, we launched Noteable — our new global home for songwriters, producers and publishers which is a central space to access all the resources we've made available to the songwriting and publishing community, including Spotify Publishing Analytics, SoundBetter, Songwriter Pages and Song Credits, the Songwriting Hub, and more.

Free Cash Flow

Free Cash Flow was €41 million in Q1, a €61 million increase Y/Y as the prior year included an unfavorable impact to working capital due to a shift in timing for select licensor payments as well as an increase in net income adjusted for non-cash items. These increases were partially offset by higher cash outflow for PP&E.

In addition to the positive Free Cash Flow dynamics, we maintain a strong liquidity position and are confident in the financial position of the business. Du Q1, Spotify USA Inc. issued $1.5 billion in aggregate principal amount, zero coupon Exchangeable Notes due 2026 with a 70% conversion premium. At the end

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of Q1, we had €3.1 billion in cash and cash equivalents, restricted cash, and short term investments.

Q2 & 2021 OUTLOOK

The following forward-looking statements reflect Spotify's expectations as of April 28, 2021 and are subject to substantial uncertainty. The estimates below utilize the same methodology we've used in prior quarters with respect to our guidance and the potential range of outcomes. Given the extraordinary operating circumstances we currently face with respect to the impact of COVID-19, there is a greater likelihood of variances with respect to those ranges than typical quarters.

Q2 2021 Guidance:

- Total MAUs: 366-373 million
- Total Premium Subscribers: 162-166 million
- Total Revenue: €2.16-€2.36 billion
  - Assumes approximately 200 bps headwind to growth Y/Y due to movements in foreign exchange rates

- Gross Margin: 23.6-25.6%
- Operating Profit/Loss: €(134)-€(54) million

Full Year 2021 Guidance: We have modestly lowered our Total MAUs range for the full year consistent with the lower than expected Q1 Total MAU growth. Additionally, we have increased our outlook for Total Revenue and Gross Margin, as well as decreased the Operating Loss expectations. Our Premium Subscriber outlook remains unchanged.

- Total MAUs: 402-422 million
- Total Premium Subscribers: 172-184 million
- Total Revenue: €9.11-€9.51 billion
  - Assumes approximately 75 bps headwind to growth Y/Y due to movements in foreign exchange rates

- Gross Margin: 24.0-26.0%
- Operating Profit/Loss: €(250)-€(150) million

EARNINGS QUESTION & ANSWER SESSION

We will host a live question and answer session starting at 8 a.m. ET today on investors.spotify.com. Daniel Ek, our Founder and CEO, and Paul Vogel, our Chief Financial Officer, will be on hand to answer questions submitted through slido.com using the event code #SpotifyEarningsQ121. Participants also may join using the listen-only conference line by registering through the following site:

Direct Event Registration Portal: http://www.directeventreg.com/registration/event/8137415

We use investors.spotify.com and newsroom.spotify.com websites as well as other social media listed in the "Resources – Social Media" tab of our Investors website to disclose material company information.

Use of Non-IFRS Measures

To supplement our financial information presented in accordance with IFRS, we use the following non-IFRS financial measures:

Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect, Ad-Supported revenue excluding foreign exchange effect, and Free Cash Flow. Management believes that Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect are useful to investors because they present measures that facilitate comparison to our historical performance. However, Revenue excluding foreign exchange effect, Premium revenue excluding foreign exchange effect and Ad-Supported revenue excluding foreign exchange effect should be considered in addition to, not as a substitute for or superior to, Revenue, Premium revenue, Ad-Supported revenue or other financial measures prepared in accordance with IFRS. Management believes that Free Cash Flow is useful to investors because it presents a measure that approximates the amount of cash generated that is available to repay debt obligations, to make investments, and for certain other activities that exclude certain infrequently occurring and/or non-cash items. However, Free Cash Flow should be considered in addition to, not as a substitute for or superior to, net cash flows (used in)/from operating activities or other financial measures prepared in accordance with IFRS. For more information on these non-IFRS financial measures, please see "Reconciliation of IFRS to Non-IFRS Results" table.

Forward Looking Statements

This shareholder letter contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words "may," "might," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "seek," "believe," "estimate," "predict," "potential," "continue," "contemplate," "possible," and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affe results as indicated in forward-looking statements. These factors include, but are not limited to: our ability to attract prospective users and to retain existi users; competition for users, user listening time, and advertisers; risks associated with our international expansion and our ability to manage our growth; ability to predict, recommend, and play content that our users enjoy; our ability to effectively monetize our Service; our ability to generate sufficient reve

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be profitable or to generate positive cash flow and grow on a sustained basis; risks associated with the expansion of our operations to deliver non-music content, including podcasts, including increased business, legal, financial, reputational, and competitive risks; potential disputes or liabilities associated with content made available on our Service; risks relating to the acquisition, investment, and disposition of companies or technologies; our dependence upon third-party licenses for most of the content we stream; our lack of control over the providers of our content and their effect on our access to music and other content; our ability to comply with the many complex license agreements to which we are a party; our ability to accurately estimate the amounts payable under our license agreements; the limitations on our operating flexibility due to the minimum guarantees required under certain of our license agreements; our ability to obtain accurate and comprehensive information about the compositions embodied in sound recordings in order to obtain necessary licenses or perform obligations under our existing license agreements; new copyright legislation and related regulations that may increase the cost and/or difficulty of music licensing; assertions by third parties of infringement or other violations by us of their intellectual property rights; our ability to protect our intellectual property; the dependence of streaming on operating systems, online platforms, hardware, networks, regulations, and standards that we do not control; potential breaches of our security systems; interruptions, delays, or discontinuations in service in our systems or systems of third parties; changes in laws or regulations affecting us; risks relating to privacy and data security; our ability to maintain, protect, and enhance our brand; payment-related risks; our ability to hire and retain key personnel; our ability to accurately estimate our user metrics and other estimates; risks associated with manipulation of stream counts and user accounts and unauthorized access to our services; tax-related risks; the concentration of voting power among our founders who have and will continue to have substantial control over our business; risks related to our status as a foreign private issuer; international, national or local economic, social or political conditions; risks associated with accounting estimates, currency fluctuations and foreign exchange controls; and the impact of the COVID-19 pandemic on our business and operations, including any adverse impact on advertising sales or subscriber revenue. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our estimates and forward-looking statements is included in our filings with the U.S. Securities and Exchange Commission (“SEC”), including our Annual Report on Form 20-F filed with the SEC on February 5, 2021, as updated by subsequently filed reports for our interim results on Form 6-K. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this shareholder letter.

Rounding

Certain monetary amounts, percentages, and other figures included in this letter have been subject to rounding adjustments. The sum of individual metrics may not always equal total amounts indicated due to rounding.

Consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Three months ended		
	March 31, 2021	December 31, 2020	March 31, 2020
Revenue	2,147	2,168	1,848
Cost of revenue	1,599	1,593	1,376
Gross profit	548	575	472
Research and development	196	232	162
Sales and marketing	236	294	231
General and administrative	102	118	96
	534	644	489
Operating income/(loss)	14	(69)	(17)
Finance income	104	4	70
Finance costs	(31)	(114)	(12)
Finance income/(costs) - net	73	(110)	58
Income/(loss) before tax	87	(179)	41
Income tax (benefit)/expense	64	(54)	40
Net income/(loss) attributable to owners of the parent	23	(125)	1
Earnings/(loss) per share attributable to owners of the parent			
Basic	0.12	(0.66)	—
Diluted	(0.25)	(0.66)	(0.20)
Weighted-average ordinary shares outstanding			
Basic	190,565,397	189,852,424	185,046,324
Diluted	191,815,695	189,852,424	185,632,113

Consolidated statement of financial position
(Unaudited)
(in € millions)

	March 31, 2021	December 31, 2020
Assets		
Non-current assets		
Lease right-of-use assets	452	
Property and equipment	337	
Goodwill	815	736

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Intangible assets	98	97
Long term investments	2,522	2,277
Restricted cash and other non-current assets	82	78
Deferred tax assets	14	15
	4,320	3,960
Current assets		
Trade and other receivables	440	464
Income tax receivable	5	4
Short term investments	644	596
Cash and cash equivalents	2,442	1,151
Other current assets	186	151
	3,717	2,366
Total assets	8,037	6,326
Equity and liabilities		
Equity		
Share capital	—	—
Other paid in capital	4,630	4,583
Treasury shares	(171)	(175)
Other reserves	2,052	1,687
Accumulated deficit	(3,267)	(3,290)
Equity attributable to owners of the parent	3,244	2,805
Non-current liabilities		
Exchangeable Notes	1,229	—
Lease liabilities	587	577
Accrued expenses and other liabilities	38	42
Provisions	3	2
	1,857	621
Current liabilities		
Trade and other payables	660	638
Income tax payable	12	9
Deferred revenue	424	380
Accrued expenses and other liabilities	1,715	1,748
Provisions	20	20
Derivative liabilities	105	105
	2,936	2,900
Total liabilities	4,793	3,521
Total equity and liabilities	8,037	6,326

Consolidated statement of cash flows
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2021	December 31, 2020	March 31, 2020
Operating activities			
Net income/(loss)	23	(125)	1
Adjustments to reconcile net income/(loss) to net cash flows			
Depreciation of property and equipment and lease right-of-use assets	22	21	21
Amortization of intangible assets	8	8	5
Share-based payments expense	48	43	37
Finance income	(104)	(4)	(70)
Finance costs	31	114	12
Income tax expense/(benefit)	64	(54)	40
Other	2	4	4
Changes in working capital:			
Decrease/(increase) in trade receivables and other assets	15	(94)	22
(Decrease)/increase in trade and other liabilities	(67)	182	(63)
Increase/(decrease) in deferred revenue	37	23	(4)
Decrease in provisions	(1)	—	(1)
Interest paid on lease liabilities	(11)	(12)	(15)
Interest received	—	1	3
Income tax paid	(2)	—	
Net cash flows from/(used in) operating activities	65	107	
Investing activities			
Business combinations, net of cash acquired	(59)	(194)	(137)

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Purchases of property and equipment	(24)	(35)	(12)
Purchases of short term investments	(115)	(406)	(498)
Sales and maturities of short term investments	90	505	477
Change in restricted cash	—	2	—
Other	(6)	(4)	(14)
Net cash flows used in investing activities	(114)	(132)	(184)
Financing activities			
Payments of lease liabilities	(8)	(8)	(4)
Lease incentives received	—	7	7
Proceeds from exercise of stock options	51	45	77
Proceeds from issuance of Exchangeable Notes, net of costs	1,223	—	—
Other	(16)	(11)	(3)
Net cash flows from financing activities	1,250	33	77
Net increase/(decrease) in cash and cash equivalents	1,201	8	(116)
Cash and cash equivalents at beginning of the period	1,151	1,182	1,065
Net exchange gains/(losses) on cash and cash equivalents	90	(39)	2
Cash and cash equivalents at period end	2,442	1,151	951

Calculation of basic and diluted earnings/(loss) per share
(Unaudited)
(in € millions, except share and per share data)

	Three months ended		
	March 31, 2021	December 31, 2020	March 31, 2020
Basic earnings/(loss) per share			
Net income/(loss) attributable to owners of the parent	23	(125)	1
Share used in computation:			
Weighted-average ordinary shares outstanding	190,565,397	189,852,424	185,046,324
Basic earnings/(loss) per share attributable to owners of the parent	0.12	(0.66)	—
Diluted loss per share			
Net income/(loss) attributable to owners of the parent	23	(125)	1
Fair value gains on dilutive warrants	(22)	—	(38)
Fair value gains on Exchangeable Notes	(49)	—	—
Net loss used in the computation of diluted loss per share	(48)	(125)	(37)
Shares used in computation:			
Weighted-average ordinary shares outstanding	190,565,397	189,852,424	185,046,324
Warrants	312,148	—	585,789
Exchangeable Notes	938,150	—	—
Diluted weighted-average ordinary shares	191,815,695	189,852,424	185,632,113
Diluted loss per share attributable to owners of the parent	(0.25)	(0.66)	(0.20)

Reconciliation of IFRS to Non-IFRS Results
(Unaudited)
(in € millions, except percentages)

	Three months ended	
	March 31, 2021	March 31, 2020
IFRS revenue	2,147	1,848
Foreign exchange effect on 2021 revenue using 2020 rates	(114)	
Revenue excluding foreign exchange effect	2,261	
IFRS revenue year-over-year change %	16%	
Revenue excluding foreign exchange effect year-over-year change %	22%	
IFRS Premium revenue	1,931	1,700
Foreign exchange effect on 2021 Premium revenue using 2020 rates	(98)	
Premium revenue excluding foreign exchange effect	2,029	
IFRS Premium revenue year-over-year change %	14%	
Premium revenue excluding foreign exchange effect year-over-year change %	19%	
IFRS Ad-Supported revenue	216	148
Foreign exchange effect on 2021 Ad-Supported revenue using 2020 rates	(16)	
Ad-Supported revenue excluding foreign exchange effect	232	
IFRS Ad-Supported revenue year-over-year change %	46%	
Ad-Supported revenue excluding foreign exchange effect year-over-year change %	57%	

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Free Cash Flow
(Unaudited)
(in € millions)

	Three months ended		
	March 31, 2021	December 31, 2020	March 31, 2020
Net cash flows from operating activities	65	107	(9)
Capital expenditures	(24)	(35)	(12)
Change in restricted cash	—	2	—
Free Cash Flow	41	74	(21)

[1] Free Cash Flow is a non-IFRS measure. See “Use of Non-IFRS Measures” and “Reconciliation of IFRS to Non-IFRS Results” for additional information.

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Alphabet Announces First Quarter 2021 Results

MOUNTAIN VIEW, Calif. – April 27, 2021 – Alphabet Inc. (NASDAQ: GOOG, GOOGL) today announced financial results for the quarter ended March 31, 2021.

Sundar Pichai, CEO of Google and Alphabet, said: “Over the last year, people have turned to Google Search and many online services to stay informed, connected and entertained. We’ve continued our focus on delivering trusted services to help people around the world. Our Cloud services are helping businesses, big and small, accelerate their digital transformations."

Ruth Porat, CFO of Google and Alphabet, said: “Total revenues of $55.3 billion in the first quarter reflect elevated consumer activity online and broad based growth in advertiser revenue. We’re very pleased with the ongoing momentum in Google Cloud, with revenues of $4.0 billion in the quarter reflecting strength and opportunity in both GCP and Workspace.”

Q1 2021 financial highlights

The following table summarizes our consolidated financial results for the quarters ended March 31, 2020 and 2021 (in millions, except for per share information and percentages; unaudited).

	Quarter Ended March 31,	
	2020	2021
Revenues	$ 41,159	$ 55,314
Increase in revenues year over year	13 %	34 %
Increase in constant currency revenues year over year[1]	15 %	32 %
Operating income	$ 7,977	$ 16,437
Operating margin	19 %	30 %
Other income (expense), net	$ (220)	$ 4,846
Net income	$ 6,836	$ 17,930
Diluted EPS	$ 9.87	$ 26.29

[1] Non-GAAP measure. See the table captioned “Reconciliation from GAAP revenues to non-GAAP constant currency revenues” for more details.

Q1 2021 supplemental information (in millions, except for number of employees; unaudited)

Revenues, Traffic Acquisition Costs (TAC) and number of employees

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2021
Google Search & other	$ 24,502	$ 31,879
YouTube ads	4,038	6,005
Google Network	5,223	6,800
Google advertising	33,763	44,684
Google other	4,435	6,494
Google Services total	38,198	51,178
Google Cloud	2,777	4,047
Other Bets	135	198
Hedging gains (losses)	49	(109)
Total revenues	$ 41,159	$ 55,314
Total TAC	$ 7,452	$ 9,712
Number of employees	123,048	139,995

Segment Operating Results

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2021
Operating income (loss):		
Google Services	$ 11,548	$ 19,546
Google Cloud	(1,730)	(974)
Other Bets	(1,121)	(1,145)
Corporate costs, unallocated	(720)	(990)
Total income from operations	$ 7,977	$ 16,437

Change in the useful lives of our server and network equipment (unaudited)

In January 2021, we completed an assessment of the useful lives of our servers and network equipment and adjusted the estimated useful life of our servers from three years to four years and the estimated useful life of certain network equipment from three years to five years. This change in accounting estimate was effective beginning in fiscal year 2021 and the effect for the three months ended March 31, 2021, was a reduction in depreciation expense of $835 million and an increase in net income of $650 million, or $0.97 per basic and $0.95 per diluted share.

Stock Repurchase

On April 23, 2021, the Board of Directors of Alphabet authorized the company to repurchase up to an additional $50.0 billion of its Class C capital stock. The repurchases are expected to be executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans.

Webcast and conference call information

A live audio webcast of our first quarter 2021 earnings release call will be available on YouTube at https://youtu.be/B4VgDDlOaEc. The call begins today at 2:00 PM (PT) / 5:00 PM (ET). This press release, including the reconciliations of certain non-GAAP measures to their nearest comparable GAAP measures, is also available at http://abc.xyz/investor.

We also provide announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs, on our investor relations website (http://abc.xyz/investor).

We also share Google news and product updates on Google's Keyword blog at https://www.blog.google/, which may be of interest or material to our investors.

Forward-looking statements

This press release may contain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties that could cause actual results to differ from the results predicted include, among others, those risks and uncertainties included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2020, which is on file with the SEC and is available on our investor relations website at http://abc.xyz/investor and on the SEC website at www.sec.gov. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021. All information provided in this release and in the attachments is as of April 27, 2021. Undue reliance should not be placed on the forward-looking statements in this press release, which are based on information available to us on the date hereof. We undertake no duty to update this information unless required by law.

About non-GAAP financial measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: free cash flow; constant currency revenues; and percentage change in constant currency revenues. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain items that may not be indicative of our recurring core business operating results, such as our revenues excluding the effect of foreign exchange rate movements and hedging activities. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management’s internal comparisons to our historical performance and liquidity as well as comparisons to our competitors’ operating results. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

There are a number of limitations related to the use of non-GAAP financial measures. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP financial measures and evaluating these non-GAAP financial measures together with their relevant financial measures in accordance with GAAP.

For more information on these non-GAAP financial measures, please see the tables captioned “Reconciliation from net cash provided by operating activities to free cash flow” and “Reconciliation from GAAP revenues to non-GAAP constant currency revenues” included at the end of this release.

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Alphabet Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts which are reflected in thousands and par value per share amounts)

	As of December 31, 2020	As of March 31, 2021 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 26,465	$ 26,622
Marketable securities	110,229	108,482
Total cash, cash equivalents, and marketable securities	136,694	135,104
Accounts receivable, net	30,930	28,006
Income taxes receivable, net	454	493
Inventory	728	888
Other current assets	5,490	7,646
Total current assets	174,296	172,137
Non-marketable investments	20,703	25,294
Deferred income taxes	1,084	1,129
Property and equipment, net	84,749	87,606
Operating lease assets	12,211	12,598
Intangible assets, net	1,445	1,823
Goodwill	21,175	22,341
Other non-current assets	3,953	4,167
Total assets	$ 319,616	$ 327,095
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,589	$ 4,801
Accrued compensation and benefits	11,086	8,375
Accrued expenses and other current liabilities	28,631	30,732
Accrued revenue share	7,500	6,962
Deferred revenue	2,543	2,690
Income taxes payable, net	1,485	1,893
Total current liabilities	56,834	55,453
Long-term debt	13,932	13,887
Deferred revenue, non-current	481	530
Income taxes payable, non-current	8,849	9,278
Deferred income taxes	3,561	4,406
Operating lease liabilities	11,146	11,382
Other long-term liabilities	2,269	2,146
Total liabilities	97,072	97,082
Contingencies		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, $0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 675,222 (Class A 300,730, Class B 45,843, Class C 328,649) and 671,094 (Class A 300,747, Class B 45,836, Class C 324,511) shares issued and outstanding	58,510	59,436
Accumulated other comprehensive income (loss)	633	(3)
Retained earnings	163,401	170,580
Total stockholders' equity	222,544	230,013
Total liabilities and stockholders' equity	$ 319,616	$ 327,095

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except share amounts which are reflected in thousands and per share amounts)

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2021
	(unaudited)	
Revenues	$ 41,159	$ 55,314
Costs and expenses:		
Cost of revenues	18,982	24,103
Research and development	6,820	7,485
Sales and marketing	4,500	4,516
General and administrative	2,880	2,773
Total costs and expenses	33,182	38,877
Income from operations	7,977	16,437
Other income (expense), net	(220)	4,846
Income before income taxes	7,757	21,283
Provision for income taxes	921	3,353
Net income	$ 6,836	$ 17,930
Basic earnings per share of Class A and B common stock and Class C capital stock	$ 9.96	$ 26.63
Diluted earnings per share of Class A and B common stock and Class C capital stock	$ 9.87	$ 26.29
Number of shares used in basic earnings per share calculation	686,465	673,220
Number of shares used in diluted earnings per share calculation	692,267	682,071

Alphabet Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Quarter Ended March 31, 2020	2021
	(unaudited)	
Operating activities		
Net income	$ 6,836	$ 17,930
Adjustments:		
Depreciation and impairment of property and equipment	2,899	2,525
Amortization and impairment of intangible assets	209	228
Stock-based compensation expense	3,191	3,745
Deferred income taxes	175	1,100
(Gain) loss on debt and equity securities, net	802	(4,751)
Other	297	(255)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	2,602	2,794
Income taxes, net	(245)	785
Other assets	(115)	7
Accounts payable	(835)	(982)
Accrued expenses and other liabilities	(3,531)	(3,530)
Accrued revenue share	(871)	(444)
Deferred revenue	37	137
Net cash provided by operating activities	11,451	19,289
Investing activities		
Purchases of property and equipment	(6,005)	(5,942)
Purchases of marketable securities	(37,563)	(36,426)
Maturities and sales of marketable securities	41,811	39,248
Purchases of non-marketable investments	(572)	(646)
Maturities and sales of non-marketable investments	260	19
Acquisitions, net of cash acquired, and purchases of intangible assets	(190)	(1,666)
Other investing activities	412	30
Net cash used in investing activities	(1,847)	(5,383)
Financing activities		
Net payments related to stock-based award activities	(1,241)	(2,184)
Repurchases of capital stock	(8,496)	(11,395)
Proceeds from issuance of debt, net of costs	1,898	900
Repayments of debt	(1,947)	(937)
Proceeds from sale of interest in consolidated entities, net	1,600	10
Net cash used in financing activities	(8,186)	(13,606)
Effect of exchange rate changes on cash and cash equivalents	(272)	(143)
Net increase in cash and cash equivalents	1,146	157
Cash and cash equivalents at beginning of period	18,498	26,465
Cash and cash equivalents at end of period	$ 19,644	$ 26,622

Reconciliation from net cash provided by operating activities to free cash flow (in millions; unaudited)**:**

We provide free cash flow because it is a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can be used for strategic opportunities, including investing in our business and acquisitions, and to strengthen our balance sheet.

		Quarter Ended March 31, 2021
Net cash provided by operating activities	$	19,289
Less: purchases of property and equipment		(5,942)
Free cash flow	$	13,347

Free cash flow: We define free cash flow as net cash provided by operating activities less capital expenditures.

Reconciliation from GAAP revenues to non-GAAP constant currency revenues (in millions, except percentages; unaudited)**:**

We provide non-GAAP constant currency revenues and the non-GAAP percentage change in constant currency revenues because they facilitate the comparison of current results to historic performance by excluding the effect of foreign exchange rate movements and hedging activities, which are not indicative of our core operating results.

	Quarter Ended March 31, 2021	
	YoY (using Q1'20's FX rates)	*QoQ (using Q4'20's FX rates)*
EMEA revenues (GAAP)	$ 17,031	$ 17,031
Exclude foreign exchange effect on Q1'21 revenues using Q1'20 rates	(929)	N/A
Exclude foreign exchange effect on Q1'21 revenues using Q4'20 rates	N/A	(550)
EMEA constant currency revenues (non-GAAP)	$ 16,102	$ 16,481
Prior period EMEA revenues (GAAP)	$ 12,845	$ 17,238
EMEA revenue percentage change (GAAP)	33 %	(1)%
EMEA constant currency revenue percentage change (non-GAAP)	25 %	(4)%
APAC revenues (GAAP)	$ 10,455	$ 10,455
Exclude foreign exchange effect on Q1'21 revenues using Q1'20 rates	(363)	N/A
Exclude foreign exchange effect on Q1'21 revenues using Q4'20 rates	N/A	(155)
APAC constant currency revenues (non-GAAP)	$ 10,092	$ 10,300
Prior period APAC revenues (GAAP)	$ 7,238	$ 9,909
APAC revenue percentage change (GAAP)	44 %	6 %
APAC constant currency revenue percentage change (non-GAAP)	39 %	4 %
Other Americas revenues (GAAP)	$ 2,905	$ 2,905
Exclude foreign exchange effect on Q1'21 revenues using Q1'20 rates	191	N/A
Exclude foreign exchange effect on Q1'21 revenues using Q4'20 rates	N/A	(77)
Other Americas constant currency revenues (non-GAAP)	$ 3,096	$ 2,828
Prior period Other Americas revenues (GAAP)	$ 2,157	$ 3,050
Other Americas revenue percentage change (GAAP)	35 %	(5)%
Other Americas constant currency revenue percentage change (non-GAAP)	44 %	(7)%
United States revenues (GAAP)	$ 25,032	$ 25,032
United States revenue percentage change (GAAP)	33 %	(6)%
Hedging gains (losses)	$ (109)	$ (109)
Revenues (GAAP)	$ 55,314	$ 55,314
Constant currency revenues (non-GAAP)	$ 54,322	$ 54,641
Prior period revenues, excluding hedging effect (non-GAAP)[1]	$ 41,110	$ 56,900
Revenue percentage change (GAAP)	34 %	(3)%
Constant currency revenue percentage change (non-GAAP)	32 %	(4)%

(1) Total revenues and hedging gains (losses) for the quarter ended March 31, 2020 were $41,159 million and $49 million, respectively. Total revenues and hedging gains (losses) for the quarter ended December 31, 2020 were $56,898 million and $(2) million, respectively.

Non-GAAP constant currency revenues and percentage change: We define non-GAAP constant currency revenues as total revenues excluding the effect of foreign exchange rate movements and hedging activities, and we use it to determine the constant currency revenue percentage change on year-on-year and quarter-on-quarter basis. Non-GAAP constant currency revenues are calculated by translating current quarter revenues using prior period exchange rates and excluding any hedging effect recognized in the current quarter. Constant currency revenue percentage change is calculated by determining the increase in current quarter non-GAAP constant currency revenues over prior period revenues, excluding any hedging effect recognized in the prior period.

Other income (expense), net

The following table presents our other income (expense), net (in millions; unaudited):

	Quarter Ended March 31,	
	2020	2021
Interest income	$ 586	$ 345
Interest expense	(21)	(76)
Foreign currency exchange gain (loss), net	(81)	113
Gain (loss) on debt securities, net	12	(86)
Gain (loss) on equity securities, net[1]	(814)	4,837
Performance fees	6	(665)
Income (loss) and impairment from equity method investments, net	74	5
Other	18	373
Other income (expense), net	$ (220)	$ 4,846

(1) Includes all gains and losses, unrealized and realized, on equity investments that we hold. For Q1 2021, the net effect of the gain on equity securities of $4,837 million and the performance fees of $665 million increased the provision for income tax, net income, and diluted EPS by $876 million, $3,296 million, and $4.83, respectively. Fluctuations in the value of our investments may be affected by market dynamics and other factors, such as operating and financial performance of the companies we invest in, and could significantly contribute to the volatility of OI&E in future periods.

Segment results

The following table presents our revenues and operating income (loss) (in millions; unaudited):

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2021
Revenues:		
Google Services	$ 38,198	$ 51,178
Google Cloud	2,777	4,047
Other Bets	135	198
Hedging gains (losses)	49	(109)
Total revenues	$ 41,159	$ 55,314

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2021
Operating income (loss):		
Google Services	$ 11,548	$ 19,546
Google Cloud	(1,730)	(974)
Other Bets	(1,121)	(1,145)
Corporate costs, unallocated	(720)	(990)
Total income from operations	$ 7,977	$ 16,437

We report our segment results as Google Services, Google Cloud, and Other Bets:

- Google Services includes products and services such as ads, Android, Chrome, hardware, Google Maps, Google Play, Search, and YouTube. Google Services generates revenues primarily from advertising; sales of apps, in-app purchases, digital content products, and hardware; and fees received for subscription-based products such as YouTube Premium and YouTube TV.
- Google Cloud includes Google's infrastructure and data analytics platforms, collaboration tools, and other services for enterprise customers. Google Cloud generates revenues primarily from fees received for Google Cloud Platform services and Google Workspace (formerly known as G Suite) collaboration tools.
- Other Bets is a combination of multiple operating segments that are not individually material. Revenues from the Other Bets are derived primarily through the sale of internet services as well as licensing and R&D services.

Unallocated corporate costs primarily include corporate initiatives, corporate shared costs, such as finance and legal, including fines and settlements, as well as costs associated with certain shared research and development activities. Additionally, hedging gains (losses) related to revenue are included in corporate costs.

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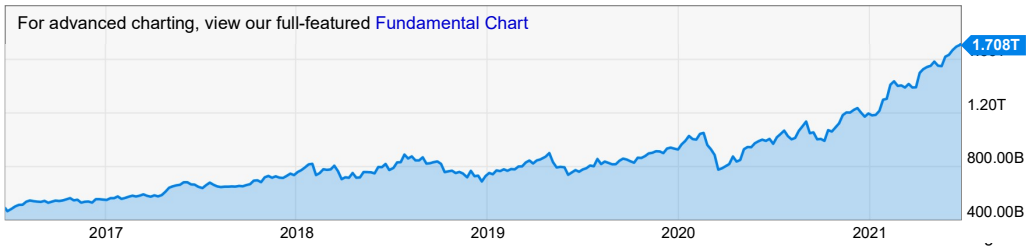

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Data for this Date Range

June 24, 2021	1.708T	May 18, 2021	1.544T
June 23, 2021	1.695T	May 17, 2021	1.556T
June 22, 2021	1.702T	May 14, 2021	1.552T
June 21, 2021	1.695T	May 13, 2021	1.516T
June 18, 2021	1.683T	May 12, 2021	1.501T
June 17, 2021	1.694T	May 11, 2021	1.547T
June 16, 2021	1.685T	May 10, 2021	1.569T
June 15, 2021	1.689T	May 7, 2021	1.608T
June 14, 2021	1.694T	May 6, 2021	1.596T
June 11, 2021	1.685T	May 5, 2021	1.579T
June 10, 2021	1.690T	May 4, 2021	1.578T
June 9, 2021	1.670T	May 3, 2021	1.605T
June 8, 2021	1.664T	April 30, 2021	1.615T
June 7, 2021	1.653T	April 29, 2021	1.628T
June 4, 2021	1.643T	April 28, 2021	1.595T
June 3, 2021	1.611T	April 27, 2021	1.546T
June 2, 2021	1.623T	April 26, 2021	1.559T
June 1, 2021	1.628T	April 23, 2021	1.552T
May 28, 2021	1.616T	April 22, 2021	1.520T
May 27, 2021	1.610T	April 21, 2021	1.537T
May 26, 2021	1.631T	April 20, 2021	1.537T
May 25, 2021	1.614T	April 19, 2021	1.545T
May 24, 2021	1.613T	April 16, 2021	1.542T
May 21, 2021	1.572T	April 15, 2021	1.541T
May 20, 2021	1.579T	April 14, 2021	1.513T

n Definition

easures the total value of a stock price multiplied by the metric is important because it gives you an idea of the size of a company, and how the size has changed over time. When studying companies from a relative basis, it would make sense to compare companies that have a similar market capitalization because factors like market share, economies of scale, and business models would also be similar.

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Market Cap Benchmarks

Airbnb Inc	93.00B
Snap Inc	106.04B
Pinterest Inc	48.72B

Market Cap Range, Past 5 Years

Minimum	458.80B	Jun 27 2016
Maximum	1.708T	Jun 24 2021
Average	843.98B	

Market Cap Related Metrics

PE Ratio	33.93
PS Ratio	9.468
PEG Ratio	0.6575
Price to Book Value	7.427
Price to Free Cash Flow	36.70
Price	2548.98
Earnings Yield	2.95%
PEGY Ratio	0.6575
Operating PE Ratio	37.48
Normalized PE Ratio	41.30

May 19, 2021	1.547T

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Date	Open	High	Low	Close	Volume
June 30, 2021	3441.06	3471.60	3435.00	3440.16	2.300M
June 29, 2021	3438.82	3456.03	3423.03	3448.14	2.098M
June 28, 2021	3416.00	3448.00	3413.51	3443.89	2.243M
June 25, 2021	3464.00	3464.82	3394.18	3401.46	3.941M
June 24, 2021	3507.64	3524.86	3430.85	3449.08	3.832M
June 23, 2021	3505.00	3521.00	3483.20	3503.82	2.813M
June 22, 2021	3458.06	3523.78	3456.09	3505.44	3.345M
June 21, 2021	3476.42	3482.00	3434.00	3453.96	3.277M
June 18, 2021	3479.99	3507.00	3473.71	3486.90	5.248M
June 17, 2021	3403.18	3497.20	3401.00	3489.24	5.137M
June 16, 2021	3392.00	3426.35	3360.53	3415.25	4.203M
June 15, 2021	3384.00	3396.99	3363.11	3383.13	2.426M
June 14, 2021	3346.83	3385.00	3335.50	3383.87	2.570M
June 11, 2021	3349.65	3366.58	3333.45	3346.83	2.817M
June 10, 2021	3282.01	3351.00	3281.15	3349.65	3.476M
June 9, 2021	3272.87	3297.58	3270.70	3281.15	2.456M
June 8, 2021	3222.61	3279.53	3218.01	3264.11	3.417M
June 7, 2021	3197.33	3208.00	3172.20	3198.01	2.216M
June 4, 2021	3212.00	3221.00	3198.81	3206.22	2.250M
June 3, 2021	3204.23	3214.44	3184.03	3187.01	2.398M
June 2, 2021	3223.10	3235.00	3208.00	3233.99	2.015M
June 1, 2021	3243.50	3250.98	3209.06	3218.65	2.430M
May 28, 2021	3242.00	3247.99	3219.70	3223.07	2.332M

Price Benchmarks

Tesla Inc	677.50
Etsy Inc	199.30
Bed Bath & Beyond Inc	32.64

Price Range, Past 5 Years

Minimum	719.07	Nov 14 2016
Maximum	3531.45	Sep 02 2020
Average	1818.68	

Price Related Metrics

PE Ratio	65.25
PS Ratio	4.187
PEG Ratio	0.4319
Price to Book Value	16.74
Price to Free Cash Flow	80.55
Earnings Yield	1.53%
Market Cap	1.729T
PEGY Ratio	0.4319
Operating PE Ratio	63.18
Normalized PE Ratio	68.62

May 27, 2021	3256.00	3260.36	3230.04	3230.11	2.561M
May 26, 2021	3274.59	3295.73	3258.51	3265.16	2.384M

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Select digital music services by tracks available, 2014-2020 (M)

Service	2014	2015	2016	2017	2018	2019	2020
Soundcloud (1)							200
Apple Music (2)	20	30	43	43	45	50	60
iTunes	37	43	43	43	45	50	60
TIDAL (3)	25	30	40	41	56	60	60
Deezer	30	35	40	44	53	56	56
Amazon Music Unlimited			30	30	40	50	50
Spotify	20	30	30	31	35	40	50
Napster (4)	32	34	34	34	40	40	40
Tencent Music						40	40
iHeartRadio							30
Jango	20						30
Youtube Music							30
eMusic	17	10	23	27	27	26	23

Data compiled 2020.
(1) Largely user generated songs.
(2) Formerly Beats/MOG.
(3) Formerly WiMP/Aspiro.
(4) Formerly Rhapsody.

Sources: Industry data; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.
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EXHIBIT A

DECLARATION OF MICHAEL L. KATZ

MEASURING EFFECTIVE CMRS COMPETITION

Michael L. Katz

July 13, 2009

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I. INTRODUCTION AND OVERVIEW

1. As part of the process of drafting its *Fourteenth Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services*, the Federal Communications Commission (Commission) recently solicited data and information that would enable the Commission to evaluate the state of competition among the providers of Commercial Mobile Radio Services (CMRS).[1] As it has in its past annual notices, the Commission requested data on a broad range of economic indicators grouped into four categories that recent CMRS Competition Reports have utilized as measures of competitive conditions: (1) market structure; (2) provider conduct; (3) consumer behavior; and (4) market performance.[2] As part of its solicitation, the Commission also sought comment on several conceptual issues related to the assessment of CMRS competition. These issues include the definition of "effective competition" and the question of "which indicators are useful for analyzing competitive market conditions with respect to CMRS."[3] The Commission specifically invited comment on the usefulness of measures of market concentration and carrier profits as indicators of the state of competition.[4]

---

[1] Federal Communications Commission, "Wireless Telecommunications Bureau Seeks Comment on Commercial Mobile Radio Services Market Competition," WT Docket No. 09-66, Public Notice, rel. May 14, 2009 (hereinafter, *Public Notice*).

[2] *Public Notice* at 2. See also, Thirteenth Report, *In the Matter of Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993 Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, DA 09-54, Rel. January 16, 2009 (hereinafter *Thirteenth CMRS Competition Report*), ¶ 5.

[3] *Public Notice* at 2.

[4] *Public Notice* at 3-4, and § IV.C.

2. The Commission received a wide range of responses to its request for comments regarding the use of various indicators to determine whether there is effective competition in the provision of CMRS. I have been asked by counsel for AT&T Inc. to assess these comments from the perspective of economics.[5] Because many of these comments do not rest on sound economic foundations, the analysis below includes a discussion of the fundamental economic principles that are relevant to the issues at hand. These principles provide a coherent framework in which to address both the initial comments and the approach that the Commission should take in measuring the degree of competition among CMRS providers.

3. I conclude that the Commission should employ an economically sophisticated approach to assessing the state of CMRS competition. The Commission should resist any temptation to search for, let alone adopt, a simplistic rule or formula (*e.g.*, a critical concentration level) to gauge competitive performance in the CMRS marketplace; such a mechanical exercise very likely would be misleading. Instead, the Commission should apply sound economic reasoning in a way that is analytically rigorous, tailored to the inquiry at hand, and cognizant of marketplace realities.

4. Briefly, an economically sound approach to measuring competition must reflect the following facts:

- *Competition takes place along multiple dimensions, and the degree of competition in any given dimension varies along a continuum.* As a general matter, suppliers rarely compete along one dimension. Instead, competition is typically multidimensional (*e.g.*, taking place in terms of both price and product quality). CMRS providers exemplify this fact. Service providers compete in terms of price levels, price structures, customer service, and the signal quality, coverage, speed,

---

[5] In the interest of conserving space, I focus on particularly important or broad issues and do not address every point raised in the comments.

and reliability of their networks. They also compete along other dimensions, including the handsets, operating systems, applications, and features that they offer and promote. Moreover, wireless operators typically compete by offering a range of different products and services.

- *Competition is not a discrete, black-or-white concept.* There is no meaningful bright line between those markets that are effectively competitive and those that are not. Instead, the degree of competition lies along a continuum running from perfect competition to monopoly. Almost all markets, including those for CMRS, lie in between—rather than at—the two poles.

- *There is a critical distinction between harm to competition and harm to competitors.* It is often the case that, when a supplier takes actions that benefit consumers, the result will be to reduce the profitability of rivals suppliers, which now face a stronger competitive threat. It is widely recognized that the proper concern of competition policy is with harm to competition, not harm to the economic welfare of specific competitors.

5. These facts regarding competition have several very important implications for the measurement and assessment of CMRS competition:

- *The Commission should avoid attempting to measure competition as if it were a uni-dimensional concept.* Given the multi-dimensional nature of competition, uni-dimensional measures of market conduct are likely to provide an incomplete and potentially misleading view of CMRS competition. Similarly, in evaluating the consumer-welfare effects of various practices, the Commission must consider the full range of effects. For example, as discussed below, exclusive arrangements between wireless service providers and handset manufacturers play an important role in promoting handset innovation and competition.

- *The Commission should reject mechanical reliance on arbitrary concentration thresholds.* The degree of competition runs along a continuum. Hence, even if concentration indexes perfectly measured competition, there would not be a sound basis for adopting a bright-line threshold. Moreover, the linkage between concentration measures and competition is complex and far from perfect. Consequently, there is no "magic" degree of concentration that separates competitive from uncompetitive markets. Although some commenters take the position that there exists a critical level of concentration, there is no economic basis for concluding that there is a discrete break in provider behavior at any particular concentration level. As explained below, commenters favoring the use of this bright line have a mistaken understanding of its limited role in merger analysis merely as a trigger for further inquiry. A variety of factors other than concentration are relevant to any rigorous analysis of competition, including the ease with which consumers can switch among providers and the underlying drivers of market shares.

- *The Commission should avoid reaching the false conclusion that an increase in concentration is indicative of market failure or a breakdown of competition.* Several commenters have asserted that concentration in CMRS markets is increasing and that this increase indicates some sort of market failure. However, a proper economic analysis recognizes that implications of any increase in concentration can properly be understood only by analyzing the underlying drivers of that increase. For example, the implications for competition are very different when a market is concentrated because one service provider has developed an innovative offering that is extremely attractive to consumers than when the market is concentrated because the government artificially restricted the entry of some service providers. In the first instance, the increase in concentration is actually the consequence of vigorous competition. This example is not unique; as discussed below, there are other situations in which an increase in the degree of competition leads to increased concentration.

- *The profit metrics proposed in the Public Notice are poor indicators of the degree of competition in the provision of CMRS.* This conclusion follows from several facts:

  — *It is well-recognized among economists that accounting measures of profitability are ill-suited for gauging competitive intensity.* There are several well-known ways in which accounting profits diverge from economic profits. This divergence is a serious issue because economic profits are the measure relevant to the assessment of market performance.

  — *The calculation of profits for a particular service is particularly difficult when that service is offered by a multiproduct provider.* Assessing the profitability of a single product of a multi-product firm can require reverse engineering various overhead measures and other cost allocations that have been made within the firm. Such reverse engineering is potentially subject to significant error and the required regulatory cost allocations may be inherently arbitrary.

  — *The calculation of economic profits must take into account the risk-adjusted rate of return.* A competitive rate of return for an investment accounts for the riskiness of that investment, with riskier projects corresponding to higher competitive rates of return. Hence, what appear to be high profits may merely be the competitive reward for past risk-taking.

  — *Even if it were possible to estimate economic profits accurately, the existence of positive economic profits does not indicate that competition is ineffective or that regulatory intervention is warranted.* It is necessary to account for both the stochastic nature of competitive outcomes and the costs and limitation of governmental intervention. With respect to the stochastic nature of outcomes, high *ex post* levels of profit are consistent with low *ex ante* or expected levels of profit, which are what drive investment decisions.

— *It is also well-recognized that the Lerner Index is of substantially limited utility as a competition metric in network industries characterized by significant ongoing investment and high fixed costs.* Marginal cost pricing is not a realistic benchmark in an industry that requires ongoing investment and has significant economies of scale and/or density—a supplier pricing at marginal cost would be unable to cover its overall costs and, consequently, would not be financially viable. In the presence of sunk investments and economies of scale and density, "high" margins are consistent with competitive behavior.

- *In several instances, commenters assert that certain elements of CMRS provider conduct are indicative of ineffective competition when, in fact, this conduct is fully consistent with effective competition:*

  — Some commenters contend that the existence of exclusive distribution arrangements between carriers and handset makers demonstrates the absence of effective competition and the existence of market power. However, as I have explained elsewhere, such arrangements support investment and innovation, and are an important form of competition in the wireless industry.[6] These commenters apparently are making the mistake of equating harm to specific competitors' commercial interests with harm to competition. The proper focus of pro-consumer public policy is on harm to competition.

  — Similarly, commenters who contend that early termination fees are both a cause and consequence of market power ignore: (a) the fact that early termination fees support handset subsidies that many consumers find highly desirable, (b) economic scholarship showing that early termination fees can intensify competition to attract new customers.

  — One commenter incorrectly asserts that carriers engage in parallel pricing and that such pricing is indicative of collusion. This claim lacks either an empirical or theoretical basis. First, empirical data indicate that carriers do not engage in parallel pricing. This is so for two reasons. One, the prices themselves are not equal and do not move in lock step. Second, wireless operators offer multi-dimensional services that vary across carriers. Hence, even if nominal prices were the same across carriers, the quality-adjusted prices would not be. Turning to economic theory, it has long been recognized that, in equilibrium, perfectly competitive firms will all charge the same price as one another. Hence, it is simply false to assert that evidence of parallel

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[6] Michael L. Katz, "An Economic Analysis of the Rural Cellular Association's Petition for Rulemaking Regarding Exclusivity Arrangements between Commercial Wireless Carriers and Handset Manufacturers," February 2, 2009, attached as an exhibit to Comments of AT&T Inc., *In the Matter of Petition for Rulemaking Regarding Exclusivity Arrangements Between Commercial Wireless Carriers and Handset Manufacturers*, RM-11497, February 2, 2009.

pricing (if it existed) would establish that service providers were engaged in a collective exercise of market power.

— Some commenters point to individual carrier decisions to limit the use of or in other ways not support particular wireless applications as evidence of a lack of competition. However, these commenters offer incomplete and, thus, misleading characterizations of the situations.

— Lastly, two commenters assert that the pricing of special access distorts CMRS competition. These commenters fail to recognize the concept of opportunity cost, which tends to level the playing field between wireless providers that are and are not integrated into the provision of special access services. Moreover, these commenters confuse statements about the level of an input price with statements about the degree of competition in the output market.

- *"Effective competition" is not equivalent to "perfect competition," and it would not promote consumer welfare for the Commission to regulate a market simply because it was not perfectly competitive.* Although markets are rarely perfectly competitive, they often are sufficiently competitive to render unnecessary extensive government intervention. Moreover, even in imperfectly competitive markets, governmental intervention may engender more consumer harm than consumer benefit. This is so because regulation imposes administrative costs on public and private entities and inevitably has unintended adverse consequences.

- *The best approach for assessing whether there is effective competition in the provision of CMRS is to continue examining a wide range of factors and to recognize that regulation is not warranted unless there is substantial evidence of significant market failure.* The Commission's historical consideration of market performance and conduct indicators has provided useful insights into whether competition among service providers is succeeding in advancing consumer welfare through the expansion of service offerings, the development and promotion of innovative technologies, and the lowering of prices. For the better part of the past decade, those indicators have been consistent with an effectively competitive wireless industry. In its most recent study of CMRS competition, the Commission reported that 94 percent of all United States consumers had access to four or more wireless competitors. Output, prices, data speeds, broadband coverage, quality, and investment all continue to exhibit positive trends. And innovation is occurring at a significant pace as providers compete to offer new wireless features, functionalities, devices and applications.

6. The remainder of this report explains these conclusions in greater depth and provides details of the facts and analysis supporting them.

II. COMPETITION

7. Congress has established CMRS competition as a fundamental public policy goal.[7] Numerous public policies, including antitrust enforcement and the Telecommunications Act of 1996, promote competition for the benefits it delivers to consumers.[8] These benefits typically arrive in the form of lower prices, greater innovation and variety, and/or improved product and service quality. The Commission's policies are intended to serve and advance the public interest, which is a broader concept than are competition and efficiency. However, promoting efficiency through competition is widely recognized as the most effective means in most markets to promote overall consumer welfare. In the presence of vigorous competition, the practical role for government to improve efficiency and the economic welfare of consumers is quite limited except in certain well-defined circumstances.

A. COMPETITION IS A MULTI-DIMENSIONAL CONCEPT THAT OCCURS ALONG A CONTINUUM

8. In economics, competition generally refers to rivalry among participants on one side of a market to attract partners from the other side for some form of economic exchange. Economists also study whether a market is "competitive," which broadly construed connotes a significant degree of rivalry on both the supply side and the demand side of the market.

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[7] The Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, Title VI, § 6002(b), amending the Communications Act of 1934 and codified at 47 U.S.C. § 332(c). Under this statute, the Commission is charged with analyzing, on an annual basis, market conditions in CMRS and reporting (among other things) whether there is "effective competition" in CMRS.

[8] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996). The 1996 Act amends the Communications Act of 1934, 47 U.S.C. §§ 151 *et. seq.*

9. There exists a set of conditions that gives rise to a formal model that economists call "perfect competition." Among other things, these conditions include sufficiently many buyers and sellers so that no individual consumer or supplier can affect price, and the easy entry and exit of suppliers. In perfectly competitive markets where these conditions are satisfied, economic welfare (as measured by total surplus) is maximized.

9. The textbook model of monopoly lies at the other end of the competition continuum. Under monopoly, there is a single supplier, which faces no competition and which can affect market price through its choice of output level. In the textbook model of monopoly, economic welfare is not maximized.[9]

10. It is widely understood that most real-world markets do not satisfy the conditions of the formal models of either perfect competition or monopoly. Instead, the degree of competition runs along a continuum with perfect competition at one end, monopoly at the other, and most real-world markets somewhere in between.[10] Suppliers in these imperfectly competitive markets have the ability to affect prices through their actions but also face competition. Moreover, the degree of competition depends on many factors; the number of suppliers is only one of them.

11. The nature of the technological relationship between output and costs is one of the primary reasons that real-world markets do not attain the atomistic structure of the theoretical

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[9] Monopoly may nonetheless be the most efficient practical way to organize some markets, such as those characterized by very significant economies of scale.

[10] Although the linear metaphor is useful, it is important to recognize that intermediate market conditions can give rise to market conduct that is not exhibited by either monopoly or perfect competition.

model of perfect competition. Specifically, producers in real-world markets—including CMRS providers—often utilize production, distribution, or other technologies characterized by economies of scale, density, and scope. In the presence of economies of scale and density, it is economically inefficient and unlikely to be commercially viable to have a large number of suppliers, each operating at a small scale or low density. In such markets, it is a mistake to seek or expect to have a large number of suppliers and/or to have suppliers set prices equal to marginal costs (as would perfect competitors). Similarly, in the presence of economies of scope, there are typically common costs that need to be recovered through the pricing of the full set of products, and the price-cost margin earned on a single product indicates little about the supplier's overall degree of cost recovery.

12. It is also important to recognize that the manner in which firms compete is typically much more complex than in the textbook model. Competition is rarely a uni-dimensional concept. Instead, competition is typically multidimensional. CMRS markets provide vivid illustrations of this point. Service providers compete in terms of the levels and structures of their prices, their customer service, and the signal quality, coverage, speed, and reliability of their networks. Wireless service providers also compete along other dimensions including the handsets, operating systems, applications, and features that they offer and promote.

13. Uni-dimensional measures of market conduct are thus likely to provide an incomplete and misleading view of CMRS competition. In the most extreme cases, some commenters focus on the price of a single service offering to the exclusion of substitute service offerings available from the *same* carriers and without regard to the need to cover fixed and common

costs that are spread across multiple services.[11] Similarly, in evaluating the consumer-welfare effects of various practices, the Commission must consider the full range of effects. For example, as discussed below, exclusive arrangements between wireless service providers and handset manufacturers play an important role in promoting handset innovation and competition.

B. THERE IS A CRITICAL DISTINCTION BETWEEN HARM TO COMPETITION AND HARM TO COMPETITORS

14. In examining whether there is possible harm to competition, it is vital to recognize a fundamental distinction. As noted above, antitrust enforcement and modern telecommunications regulation are designed to protect competition because of the benefits that competition brings to consumers. It is important to recognize that there is a critical difference between protecting the competitive process and protecting individual competitors from the rigors of the marketplace. Or, as is commonly stated, the concern of competition policy is with harm to competition, not harm to competitors.

15. The following hypothetical example makes clear why this distinction is so important. When a supplier invests in innovative, proprietary network features that are extremely attractive to consumers, the introduction of those features harms competitors. But the innovation benefits consumers and is, indeed, a benefit of the competitive process in action. A pro-consumer public policy would properly favor innovation and seek to protect competition. In contrast, a pro-competitor public policy might block the introduction of innovative network features. Alternatively, a pro-competitor policy might require that any

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[11] *CFA Comments* at 10.

such innovation be shared with rivals, thus greatly weakening or even destroying innovation incentives. In either case, a policy that sought to protect competitors would harm competition and consumer welfare.

III. A SOUND ANALYSIS OF COMPETITION MUST LOOK BEYOND THE APPLICATION OF NUMERICAL CONCENTRATION THRESHOLDS

16. Although widely used in the analysis of competition, measures of concentration suffer from several drawbacks that limit their usefulness or invalidate them as stand-alone indicators of competition. Because of these drawbacks, a full analysis of competition requires the examination of a range of structural and non-structural market characteristics, rather than a mechanical focus on a specific concentration threshold.

A. SHORTCOMINGS OF CONCENTRATION INDICES AS MEASURES OF COMPETITION

17. There are several problems that can arise from an excessive reliance on concentration calculations. First, such measures are necessarily based on the definition of the underlying relevant market, and problems in properly defining markets therefore impact the usefulness of the resulting concentration measures. Because market definition in both the product and geographic dimensions depends on judgments about the degree to which certain products are substitutable for other products, market boundaries often cannot be drawn with absolute precision.[12] Because measures of concentration may be based on flawed market boundaries,

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[12] The problem is not just that it is difficult to know which products have sufficient substitutability to be in the market but also that the market definition exercise creates sharp demarcations between products inside and outside of the relevant market. Measures of concentration are based only on products inside the market and discard products outside the market; in other words, such measures set to zero the competitive impact of products outside the market. It is erroneous to conclude, however, that all products outside of the relevant market boundaries fail to exert any price discipline on the products inside of the relevant

those measures should be treated with caution. Although they may be easy to calculate (once a market is chosen), ease of calculation alone does not make them valuable or accurate.

18. Second, there is no single measure of concentration that is relevant in all situations, *i.e.*, there is no single measure that accurately relates to the degree of competition in all markets. For example, there are multiple metrics upon which to base concentration calculations (*e.g.*, traffic volume, capacity, or subscribers), and different measures may lead to different conclusions if one adopts a bright-line test based on concentration. There are also significant questions concerning the use of concentration measures based on customer flows (*e.g.*, the percentage of new or shifting customers that a CMRS provider attracts in a given

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market boundaries. See, *e.g.*, Statement of the Federal Trade Commission concerning Royal Caribbean Cruises, Ltd./P&O Princess Cruises plc and Carnival Corporation/P&O Princess Cruises plc, FTC File No. 021 0041 (limiting the relevant product market to "cruising" despite evidence that cruise ship operators view land-based vacation options as serious competitive threats, but including the constraining influence of land-based vacations in the overarching assessment of the likely competitive effects of the merger).

For a discussion of conditions under which the product market definition exercise is inherently arbitrary and thus might generate misleading conclusions regarding the state of competition, see Joseph Farrell and Carl Shapiro, "Antitrust Evaluation of Horizontal Mergers: An Economic Alternative to Market Definition," November 25, 2008, at 5 and 6 (*available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1313782*)*; Dennis W. Carlton, "Market Definition: Use and Abuse," *Competition Policy International*, Spring 2007, at 3-4.

Similar issues arise with respect to geographic market definition. Specifically, even if one defines local markets based on the consumer-substitution methodology, there are central elements of consumer preferences and service provider competitive strategies that create national linkages. An important characteristic of CMRS is that the service providers have fixed locations, but the majority of their customers make use of the services on a mobile basis and desire to make use of CMRS services in a range of locations. Consequently, various consumers are interested in a CMRS provider's service coverage area on a local, regional, national, or even international basis. This interest gives rise to both local and national elements of competition. In addition, many CMRS providers deploy pricing and marketing strategies on a nationwide basis in order to economize on customer service and media costs. Consequently, conducting a competitive analysis solely at a local level would be misleading. Thus, here again the Commission should exercise caution in assigning too much weight to specific geographic market boundaries and the resulting market shares.

time period) versus stocks (*e.g.*, market shares measured in terms of installed bases of customers). And finally, there are multiple ways to combine market share data into scalar measures of concentration (*e.g.*, the family of *C-n* measures[13] and the Herfindahl-Hirschman Index (HHI)[14]).

19. Third, in markets for new or rapidly changing products, market shares and concentration can change rapidly. Hence, in such markets, shares today may provide little insight into the competitive conditions of next year. For this reason, caution is especially needed with respect to the use of market shares as a measure of competitive conditions in the supply of wireless broadband services.

20. Fourth, and perhaps most important in the present context, as a matter of economics, there is no catch-all theory that relates the strength and nature of competition to market shares and concentration, or to changes in concentration. Levels and trends in concentration have to be interpreted carefully based on the underlying drivers of those levels and trends. For example, an increase in concentration could result from a quality change that induces consumers to shift to an improved product. Suppose, for instance, that an airline institutes non-stop service between two cities where previously all airlines offered only connecting service. The nonstop airline would very likely take a large share of the market, which would increase market concentration. This increased concentration does not indicate that the market

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[13] The *C-n* measure is calculated by summing the market shares of the *n* largest suppliers in a market.

[14] The Herfindahl-Hirschman Index is calculated by summing the squares of the market shares of all individual suppliers in a market.

is less competitive; in fact, consumers have benefitted from the addition of higher-quality service.[15] The increase in concentration reflects improved quality, not lessened competition.

21. As another example, an increase in concentration could result from a shift in the nature of costs in the industry. If economies of scale or density increase, *e.g.*, the minimum efficient scale increases, so that small firms have a greater cost disadvantage than before, then small firms are likely to be driven from the market and concentration will rise. Rather than indicate a competitive problem, increased concentration would in this case result from the competitive process that drives small, inefficient firms from the market as economies of scale and density increase. Such an increase in concentration would indicate an efficient market response to changed cost conditions and would not indicate a competitive problem that requires regulatory attention.

22. Finally, an increase in concentration may actually reflect an increase in the strength of competition. If suppliers do not compete vigorously and, instead, hold prices above competitive levels, then inefficient suppliers can remain in the market even with relatively high costs. As suppliers compete more strongly and lower the price umbrella under which inefficient firms had prospered, those high-cost firms will be driven to exit the market and concentration levels will increase. Thus again, an increase in concentration can result from increased competition rather than indicating the lack of competition.

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[15] Consumers who actually shift airlines clearly benefit from the higher-quality product directly. It is important to recognize that even those consumers who do not shift airlines still may benefit from the entry; other providers might respond by improving their service or lowering their prices to retain customers.

23. Attempts to apply a one-size-fits-all approach to analysis of market shares and concentration will lead to serious mistakes in an economic environment as complex as that of the CMRS industry. For example, although a wireless market with three or even five facilities-based providers may yield HHI concentration figures that reside in the "highly concentrated" category of the *Merger Guidelines*, it would be a mistake simply to assume that the market in question is not effectively competitive. Rather, sound economics mandates an analytical approach that is consistent with the Commission's current methodology—an examination of whether competition among service providers has succeeded in advancing consumer welfare through the expansion of service offerings, the development and promotion of innovative technologies, and lower prices. Similarly, it would be a mistake to ignore the competitive realities of the market, including a provider's minimum efficient scale of operation, and simply assume, based upon a concentration measure, that a more efficient structure is feasible.

24. Several commenters rely upon concentration thresholds stated in the *Horizontal Merger Guidelines*[16] to argue that the wireless industry is not competitive. For example, CFA *et al.* contend that "any [Herfindahl-Hirschman measure of concentration] above 1800 in an individual economic area ('EA') indicates severely limited competition under traditional analyses."[17] As I will now discuss, this mechanical reliance on the stated thresholds using a

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[16] U.S. Department of Justice and the Federal Trade Commission, *Horizontal Merger* Guidelines, April 2, 1992 (revised April 8, 1997), *available at* http://www.ftc.gov/bc/docs/horizmer.htm (hereinafter, *Horizontal Merger Guidelines*), § 1.51.

[17] Comments of Consumer Federation of America, Consumers Union, Free Press, Media Access Project, New America Foundation, and Public Knowledge, *In the Matter of Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993 Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT

single measure in an attempt to establish that the wireless industry is uncompetitive is misguided. CFA *et al.*'s claim is incorrect both as a statement about process and about economics. With respect to process, the *Horizontal Merger Guidelines* establish HHI thresholds as a trigger mechanism for further inquiry, not as a hard and fast test of when a market is competitive and when it is not.[18] Moreover, the *Guidelines* downplay the significance of the stated thresholds: "Although the resulting regions provide a useful framework for merger analysis, the numerical divisions suggest greater precision than is possible with the available economic tools and information."[19] As stated by a Department of Justice official, "the outcome of our merger review does not hinge on HHI calculations or any other objective or readily observable benchmark."[20] Consideration of factors beyond a simple HHI calculation is needed to determine whether a merger would likely be anti-competitive.

25. Evidence demonstrates that the antitrust agencies clear mergers even where the HHIs are far in excess of the "highly concentrated" threshold. A study of mergers reviewed but not challenged by the FTC between 1996 and 2003 showed that the mean HHI was in excess of

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Docket No. 09-66, June 15, 2009 (hereinafter, *CFA Comments*), at 5. See also, Comments of MetroPCS Communications, Inc., *In the Matter of Wireless Telecommunications Bureau Seeks Comment on Commercial Mobile Radio Services Market Competition*, WT Docket No. 09-66, June 15, 2009 (hereinafter *MetroPCS Comments*) at 5.

18 *Horizontal Merger Guidelines*, § 2.0.

19 *Horizontal Merger Guidelines*, § 1.5.

20 David L. Meyer, Deputy Assistant Attorney General for Civil Enforcement, "Merger Enforcement Is Alive and Well at the Department of Justice," Remarks at the ABA Fall Antitrust Section Forum, November 15, 2007, *available at* http://www.usdoj.gov/atr/public/speeches/227713.htm, *site visited* July 1, 2009. Interestingly, Mr. Meyer describes some markets as "relatively unconcentrated," even though those markets had HHIs well in excess of 1800.

3000.[21] A high-ranking Department of Justice official observed that "the transactions we did not challenge fell across the full spectrum of concentration: from those that had little effect on concentration in unconcentrated markets to those that may have appeared to increase it substantially in relatively concentrated markets."[22]

26. CFA *et al.* asserted that, if CMRS offerings are competitively supplied, then local CMRS markets should be more concentrated (*i.e.* have higher HHIs) in rural areas than in urban areas and that the observed pattern whereby CMRS is both the most and least concentrated in rural areas indicates competition has been distorted.[23] This is an unsound claim. These commenters are correct that consumers are more sparse in rural areas than urban, so that—in the presence of economies of density—one would expect fewer service providers and greater concentration in rural areas. However, there is more to the story, and the claim regarding the implications for competition is unwarranted. For instance, national wireless service providers have been expanding into rural areas and can find themselves competing with incumbent carriers that specialize in serving rural areas.[24] Hence, it is not surprising that there may be some rural areas with more providers and lower HHIs than some

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21 Malcolm B. Coate and Shawn W. Ulrick, "Transparency At The Federal Trade Commission: The Horizontal Merger Review Process 1996-2003," February 2005, *available at* http://www.ftc.gov/os/2005/02/0502economicissues.pdf, *site visited* July 1, 2009, Table 1.

22 David L. Meyer, Deputy Assistant Attorney General for Civil Enforcement, "Merger Enforcement Is Alive and Well at the Department of Justice," Remarks at the ABA Fall Antitrust Section Forum, November 15, 2007, *available at* http://www.usdoj.gov/atr/public/speeches/227713.htm, *site visited* July 1, 2009.

23 *CFA Comments* at 5.

24 In this regard, it is interesting to note that national carriers' practice of entering into exclusive distribution agreements for certain handsets may benefit rural consumers because the arrangements can provide competitive advantages that allow national carriers to expand into rural areas and bring more competition to those areas.

urban areas. And it is certainly not proof that there is a problem with competition in the wireless marketplace.

B. A COMPLETE ASSESSMENT OF MARKET STRUCTURE MUST LOOK BEYOND CONCENTRATION MEASURES

27. Even if one has a coherent theory of why market shares and concentration are informative measures of competition and market power, the analysis of competition is not complete. As the *Horizontal Merger Guidelines* recognize, "market share and concentration data provide only the starting point for analyzing the competitive impact of a merger."[25] A similar conclusion holds for the use of market share and concentration data to assess competition in other settings as well.

28. A complete competitive analysis must look beyond market share data and measures of concentration to examine additional structural characteristics (*e.g.*, the conditions of entry).[26] In CMRS markets, for example, rapidly changing prices due to substantial innovation and investment, as well as the multi-dimensional nature of service offerings (*e.g.*, "free" minutes, peak and off-peak prices, roaming charges, handset subsidies, and vertical services), create conditions that promote competition rather than coordinated pricing.

29. The Commission has for many years employed a broad range of actual market metrics to study rivalry among CMRS providers and the consequent consumer benefits. The indicators are divided into four different types[27]: (1) market structure (the current level of

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[25] *Horizontal Merger Guidelines*, § 2.0.

[26] In a merger context, see *Horizontal Merger Guidelines*, §§ 2 and 3.

[27] This particular grouping of the indicators began with the Ninth CMRS Competition Report, but the indicators had been used prior to that report. (Ninth Report, *In the Matter of*

concentration and ease of entry[28]); (2) provider conduct (rivalry in price, network technology, quality, and other aspects of competition[29]); (3) consumer behavior (access to information and churn[30]); and (4) market performance (prices, subscribership, minutes of use, innovation, and quality of service[31]). These metrics are well-accepted among economists as highly pertinent to an assessment of competition. Moreover, commenters have provided no substantial evidence that the Commission's longstanding use of these market metrics to assess CMRS competition is inappropriate or flawed. In contrast, were the Commission to adopt an abbreviated methodology that leaned more heavily on measures of market shares and concentration, it would run the considerable risk of producing distorted views of competitive performance that incorrectly suggested a need for regulatory intervention.

30. The dangers associated with over-reliance on concentration thresholds and the concomitant need to utilize additional market metrics are particularly great when examining competition in the provision of wireless broadband data services.[32] Because mobile broadband is in a nascent stage of development and poised for significant innovation, growth, and expansion going forward, a static examination of market shares and concentration may be

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Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, FCC 04-216, rel. September 28, 2004, (hereinafter, *Ninth CMRS Competition Report*), ¶ 6.)

28 *Ninth CMRS Competition Report*, Section III.

29 *Ninth CMRS Competition Report*, Section IV.

30 *Ninth CMRS Competition Report*, Section V.

31 *Ninth CMRS Competition Report*, Section VI.

32 For the Fourteenth Report, the Commission has requested data from wireless broadband providers on the census tracts to which they provide wireless high-speed Internet service. (*Public Notice* at 4-5.)

of little value in determining whether the provision of mobile broadband services is effectively competitive.

IV. THE COMMISSION'S PROPOSED FINANCIAL INDICIA ARE FLAWED MEASURES OF CMRS COMPETITION

31. The Commission seeks comment on whether one or more accounting measures of carrier profitability should inform the assessment of whether there is effective competition in the provision of CMRS.[33] The Commission suggests several different measures of accounting profitability, including the return on equity or assets, and earnings per share. Similarly, the Commission proposes the use of the Lerner Index as a possibly informative indicator.[34] The Commission asks "which of these methods is the most appropriate for analyzing the profitability of wireless telecommunications firms and providing insight into whether there is effective competition."[35] CFA *et al.* view these profit measures favorably.[36] As discussed in the remainder of this section, however, all of the proposed metrics should be rejected because they are not good proxies for the state of competition in the CMRS marketplace.

32. The Commission's proposed accounting measures of profitability are: net profit ratio, operating profit ratio, return on assets, return on equity, earnings per share, and cash flow margin.[37] Although the Commission recognizes the distinction between accounting and

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[33] Specifically, the Commission seeks comment on "the use of profitability estimates as a tool in our analysis of the performance of the CMRS industry, including to what extent profit levels are evidence of effective competition." (*Public Notice* at 12.)

[34] *Public Notice* at 12.

[35] *Public Notice* at 12.

[36] *CFA Comments* at 20.

[37] *Public Notice* at 12.

economic profits and appears to seek to measure economic profits (*i.e.*, "revenue minus all costs, including all opportunity costs") all of these proposed measures are explicitly based upon accounting concepts.[38] Furthermore, the Commission proposes to use accounting data provided in SEC-mandated company filings as its source of data. Both the measures listed and the data the Commission proposed to use make it very unlikely that the Commission could derive meaningful measures of economic profits.

32. The economics literature has long recognized the problems inherent in trying to infer economic profits from accounting measures of profits.[39]

33. One such problem is that asset valuation from an accounting perspective does not necessarily correspond to asset valuation from an economic perspective.[40] Consequently, the accounting treatment of capital investment often yields results that have little economic meaning. The accounting treatment of intangible assets, such as research and development, advertising, and elements of service that foster the creation and development of positive reputations, is particularly problematic. Accounting conventions do not properly measure the underlying economic values of these assets, and consequently accounting profits are an unreliable proxy for economic profits.[41]

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38 *Public Notice* at 12.

39 See, *e.g.*, Franklin M. Fisher and John J. McGowan (1983), "On the Misuse of Accounting Rates of Return to Infer Monopoly Profits," *American Economic Review*, **73**:1(82-97).

40 For an overview of this problem, see Franklin M. Fisher (1988), "Accounting Data and the Economic Performance of Firms," *Journal of Accounting and Public Policy*, **7**(253-260).

41 For example, according to FASB rules, research and development (R&D) is treated as a current expense. (Financial Accounting Standards Board, "Original Pronouncements as Amended, Statement of Financial Accounting Standards No. 2, Accounting for Research and Development Costs," issued October 1974, *available at* http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&b

34. A second problem in trying to infer economic profits from accounting profits relates to the fact that the returns to most investments are highly uncertain. This uncertainty makes it essential to adjust the cost of capital to account for the degree of risk associated with the investment when calculating economic profits. In practice, proper adjustment for risk can be very difficult, and the failure to account properly for investment risk will yield inaccurate estimates of economic profits. This problem in attempting to use a profit measure to determine whether a service provider has market power is closely related to the problem that arises because regulators observe realized project returns, not the expected returns at the time the service provider made its investment decisions. The following example illustrates the importance of this distinction. Consider a potential project that requires a $1 million investment this year and has a 50-percent chance of success next year. In the event of success, the project yields $2 million in additional revenues, while failure leads to no new revenues. In this case, the undiscounted expected value of the project is $0 and the discounted expected return is negative for any positive interest rate (*i.e.*, accounting for risk and the time value of money). Suppose that the firm nonetheless undertook the project and was successful. It clearly would be a mistake to conclude from the fact that the firm was earning a net return of $1 million ($2 million minus the $1 million investment) that it was somehow earning excess profits as the result of market power. Such a calculation would completely fail to account for the fact that the firm had only a 50 percent chance of

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lobwhere=1175818779322&blobheader=application%2Fpdf , *site visited* July 12, 2009), ¶ 12. However, proper economic analysis regards a significant portion of R&D as a capital investment because it (potentially) produces assets that yield a future stream of profits. Because of this divergence between accounting definitions and economic concepts, accounting

succeeding. The existence of such "profits" would not indicate that the supplier had market power; rather, it would illustrate the fact that using *ex post* profits to measure market power may lead to erroneous conclusions.

35. Economies of scope make it socially efficient and commercially profitable for suppliers to become multi-product firms. Consequently, CMRS providers typically offer multiple services that largely—but not completely—rely on common network facilities. This fact raises complex issues about the sharing of common costs across different services, which makes the calculation of profits for an individual service particularly difficult. Assessing the profitability of a single product of a multi-product firm can require reverse engineering various overhead measures and other cost allocations that have been made within the firm. Such reverse engineering is potentially subject to significant error and regulatory cost allocation may be inherently arbitrary.

36. Conclusions regarding CMRS competition drawn from accounting profit measures are apt to be unreliable, and policy interventions based on those conclusions may result in harm to the very consumers that well-intentioned regulators seek to protect. For these reasons, the U.S. antitrust agencies generally do not focus on accounting measures of profitability to assess the degree of competition. Rather, these agencies, as has the Commission in its examination of competition in CMRS, tend first to assess the structure of the market and then evaluate the conduct of suppliers, consumer behavior, and market performance.

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profits (which are net of current R&D costs) can be higher or lower than economic profits, depending on the timing of R&D expenditures and the realization of the benefits of that R&D.

37. As is the case for accounting measures of profitability, the Commission should reject the Lerner Index as an informative metric of competition in the provision of CMRS. The Lerner Index is calculated as the difference between price and marginal cost, expressed as a percentage of price. The Lerner Index ranges between zero and 100 percent. Under certain conditions, higher values of the Lerner Index are associated with greater degrees of supplier market power. It is well-accepted among economists, however, that the Lerner Index can be subject to serious misinterpretation in a marketplace such as CMRS that is characterized by significant fixed costs and scale economies. In such a setting, market participants must set prices above marginal cost—perhaps substantially so—in order to cover fixed costs. Requiring firms to price at or near marginal cost in order to be considered competitive would set the wrong standard.[42] In an industry with economies of scale, firms pricing at marginal cost would suffer economic losses and would not be commercially viable. Indeed, in the presence of economies of scale, a firm could have a Lerner Index of 70 percent, 80 percent, or more and still be suffering economic losses. In addition, as discussed earlier in this section, the cost allocation issues that arise when suppliers offer multiple products subject to economies of scope apply with equal force to the calculation of an individual service's Lerner Index. For these reasons, the Lerner Index can be a very poor indicator of economic profits.[43]

38. Thus far, the discussion has focused on the extent to which various approaches fail to measure economic profits accurately. It should be recognized that, even if it were possible to

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[42] Such a standard would correspond to a Lerner Index at the low end of the 0-to-100 percent range.

estimate accurately economic profits, effectively competitive markets do not necessarily imply modest economic profits for all market participants. Indeed, high economic profits for some suppliers can be consistent with highly competitive markets.[44] Hence, it is impossible, without more information, to infer from the degree of profits the degree of competition in a market.

39. Lastly, if—despite the many problems just identified—the Commission adopts some or all of these profitability measures as proxies for the exercise of market power, then it will have to confront the following implication of this approach: by this method, MetroPCS is exercising as much or more market power than any of the four largest national wireless carriers, and Leap Wireless is exercising as much or more market power as three of the four largest national wireless carriers.[45]

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43 Use of the Lerner Index is complicated further by the difficulties associated with accurately measuring a wireless provider's marginal cost given consumer mobility and the nature of network provision.

44 For example, firms can achieve high profits through innovation and other forms of successful, but risky, investments. Indeed, for all firms, it is the prospect of higher profits that creates the incentives to invest in innovation and greater efficiency.

45 MetroPCS recently estimated, based on publicly available data, that: its core markets cash profit margin per user was higher than that of any of the four national carriers; its core markets adjusted EBITDA margin was as high as that of any of the four largest carriers; and Leap Wireless's adjusted EBITDA margins were as large or larger than those of three of the four national carriers. (MetroPCS, *Raymond James Investor Conference*, March 9, 2009, *available at* http://library.corporate-ir.net/library/17/177/177745/items/328122/F5EE0514-D8F3-4946-94EC-54A9C6BC0746_090306_InvestorSlides_RayJay_Final_PCS.pdf, *site visited* July 11, 2009, at 4 and 9.)

V. SEVERAL COMMENTERS MISCONSTRUE THE COMPETITIVE IMPLICATIONS OF MARKET CONDUCT

40. In several instances, commenters assert that certain elements of CMRS provider conduct are indicative of a lack of effective competition when, in fact, this conduct is fully consistent with effective competition. Consider several examples.

A. EXCLUSIVE DISTRIBUTION ARRANGEMENTS

41. Some commenters contend that the existence of exclusive distribution arrangements between carriers and handset makers demonstrates the absence of effective competition and the existence of market power.[46] However, as I have explained elsewhere, it is widely accepted in legal, public policy, and economic analysis that exclusive contracts frequently promote competition and consumer welfare.[47] Exclusivity arrangements can promote competition and increase incentives for suppliers to engage in: (a) facilities investment and innovation, and (b) customer service and promotional activities. These effects arise because exclusive contracts provide a means for parties to commit to dealing with one another and, thus, such contracts can increase the incentives for the parties to invest in their economic relationship.[48] For this reason, exclusivity arrangements are common in many competitive

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[46] Comments of Cellular South, Inc., *In re: Wireless Telecommunications Bureau Seeks Comment on Commercial Mobile Radio Services Market Competition*, WT Docket No. 09-66, June 15, 2009 (hereinafter *Cellular South Comments*) at 9-10; *MetroPCS Comments* at 9-10.

[47] Michael L. Katz, "An Economic Analysis of the Rural Cellular Association's Petition for Rulemaking Regarding Exclusivity Arrangements between Commercial Wireless Carriers and Handset Manufacturers," February 2, 2009, attached as an exhibit to Comments of AT&T Inc., *In the Matter of Petition for Rulemaking Regarding Exclusivity Arrangements Between Commercial Wireless Carriers and Handset Manufacturers*, RM-11497, February 2, 2009 (hereinafter *Katz Exclusivity Analysis*).

[48] Moreover, even if one ignores the investment benefits of exclusive contracting, economic research shows that the bundling of wireless services and handsets can result in lower prices to

markets (*e.g.*, a department store may have a contract with a clothing manufacturer to be the exclusive distributor of a certain line of clothes).

42. With respect to the specific markets under consideration, the evidence indicates that use of exclusive contracts between wireless carriers and handset manufacturers promotes competition and benefits consumers in wireless communications markets. First, the introduction of exclusive handsets is an important form of competition in this industry. Manufacturers and carriers work together to create innovative new products that allow them to gain (typically temporary) competitive advantages over their rivals. Innovation by one manufacturer-carrier pair creates competitive pressure for other manufacturers and carriers to meet or beat that innovation. Second, exclusive deals between handset manufacturers and wireless carriers strengthen carriers' incentives to make network investments in support of innovative new handset features and functions, to promote new handsets, and to provide customer support for those handsets.[49]

43. Although economic theory has identified circumstances in which exclusive arrangements can harm competition and consumers by excluding competitors, those

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consumers. (Joseph Farrell, Hunter K. Monroe, and Garth Saloner (1998), "The Vertical Organization of Industry: Systems Competition versus Component Competition," *Journal of Economics and Management Strategy*, 7(2):143-182.)

[49] Absent exclusivity, a carrier could have reduced incentives to engage in these competitive activities in support of a handset model because: (a) many of the benefits would accrue to other carriers offering that model (through what is known as *free riding*); (b) the carrier would be reluctant to make commitments that required high sales volumes to be successful because of concern for insufficient demand (as a result of what are known as *contractual externalities*); and (c) the handset manufacturer would be in a better position to appropriate the benefits of the carrier's investments by threatening to switch the manufacturer's handset distribution to other carriers (a tactic known as *hold up*). For a more complete discussion of the incentive effects of exclusivity arrangements, see *Katz Exclusivity Analysis.*

conditions do not apply to the CMRS marketplace and the arrangements under attack by commenters. In some market settings (*e.g.*, when there is a dominant distributor that locks up such a substantial portion of the suppliers that rival distributors are left without competitively viable supply options and there are no offsetting efficiency benefits from the exclusive arrangements), exclusive contracts can harm competition, to the detriment of consumers. Those conditions do not apply here. First, there are many different manufacturers selling handsets through many different carriers. There are literally hundreds of handset options in the marketplace, and no single handset or manufacturer enjoys a dominant position. Second, this is not a marketplace in which there is a single, dominant distributor that has obtained exclusive distribution rights. Rather, many different carriers have negotiated exclusive rights to distribute individual handsets from many different manufacturers. In many instances, a single handset manufacturer has exclusive deals with several different wireless carriers, where each arrangement covers a different handset model. Such arrangements do not exclude rival carriers from dealing even with that handset manufacturer. Moreover, as just noted, there is no dominant handset manufacturer. These market facts are inconsistent with a theory that exclusive deals are being used to keep either handset manufacturers or carriers from competing. There is simply no support for the conclusion that these exclusive contracts are exclusionary and harm consumers.

44. Claims that exclusive handset arrangements are stifling competition look particularly misplaced in the light of recent marketplace developments. The iPhone is the poster child of opponents of exclusive handset arrangements, who claim that access to the iPhone is essential for a service provider to compete. Yet, far from showing the competitive harms of exclusive

distribution arrangements, the iPhone provides a vivid illustration of the competitive benefits. The exclusive arrangement between Apple and AT&T in the United States created an economic environment in which AT&T was willing to invest in network improvements to support certain innovative features of the iPhone, such as visual voicemail, and to engage in extensive promotional activities and customer training specific to the iPhone.[50] Absent the exclusivity provisions, AT&T's investment incentives would have been significantly diminished. Moreover, the introduction of the iPhone on AT&T's network is widely credited with having spurred other handset manufacturers and carriers to introduce a range of new, competing offerings. That innovation continues. Despite claims by some wireless service providers that the iPhone is an essential facility, the Blackberry Curve outsold the iPhone in the previous quarter of this year.[51] And the new Palm handset and operating system has attracted a great deal of interest with its highly innovative features.[52]

B. LIMITATIONS ON SERVICES OR FEATURES

45. CFA *et al.* assert that individual carrier's decisions to limit the use of—or in other ways not support specific wireless applications—is evidence of a lack of competition.[53] They

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50 Visual voicemail provides a visual index of the voicemail messages that a user has received, and it allows him or her to access those messages in any order.

51 NPD Group, "RIM Unseats Apple in The NPD Group's Latest Smartphone Ranking ," *available at* http://www.npd.com/press/releases/press_090504.html, *site visited* July 6, 2009.

52 Walter S. Mossberg, "Palm's New Pre Takes On iPhone," *The Wall Street Journal*, June 4, 2009, *available at* http://online.wsj.com/article/SB124407239691783093.html#printMode, *site visited* July 11,2009; Sprint News Release, "Sprint Sets Sales Record With Weekend Debut of Palm Pre," *available at* http://newsreleases.sprint.com/phoenix.zhtml?c=127149&p=irol-newsArticle_newsroom&ID=1297438&highlight=, *site visited* July 11, 2009.

53 *CFA Comments* at 12-13.

make particular reference to the fact that the Skype application for the iPhone works only on WiFi not on AT&T's 3G network. The claim that AT&T's actions show a lack of effective competition suffers from two fundamental problems, one factual and the other logical. First, AT&T markets other handsets that can run Skype's application on 3G.[54] Hence, AT&T is not acting to exclude Skype from the marketplace. Second, even in an effectively competitive market, suppliers that have made large investments to build out extensive facilities may take actions that allow them to earn a return on those investments.[55]

46. CFA *et al.* also assert that limitations on the availability of certain services when handsets are operated on particular networks indicate a lack of effective competition, and their comments point to the fact that two features of the latest model of iPhone (MMS and

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[54] For example, Skype has released an application for Windows Mobile handsets that permits Skype calls to be placed over AT&T's 3G network. (See "Skype 3.0 for Windows® Phones," *available at* http://www.skype.com/intl/en/download/skype/windowsmobile, *site visited* July 11, 2009; see also Marin Perez, "*Skype For Windows Phones Outclasses iPhone App*," *Information Week* June 30, 2009, *available at* http://www.informationweek.com/news/mobility/voip/showArticle.jhtml?articleID=218102086, *site visited* July 11, 2009.) AT&T offers numerous Windows Mobile handsets, including handsets from Samsung (Epix, Propel, and Blackjack), HTC (Fuze), Pantex (Matrix), LG (Insight), and Motorola (MotoQ). (AT&T, "PDAs and Smartphones," *available at* http://www.wireless.att.com/cell-phone-service/cell-phones/pda-phones-smartphones.jsp, *site visited* July 13, 2009.) In addition, Skype's website provides an application called Skype Lite that allows customers to make calls on 3G networks using a variety of other handsets, including handsets offered by AT&T, *e.g.*, Nokia E71. (See http://www.skype.com/download/skype/mobile and http://www.wireless.att.com/cell-phone-service/cell-phones/index.jsp. S*ites visited* July 13, 2009.) Another company, known as Fring, provides free software that allows users to make Skype calls over AT&T's 3G network using devices running Nokia's Symbian software, such as the Nokia E71 offered by AT&T, or devices running Windows Mobile. (See http://www.fring.com/fring_is/how_fring_works/; see also, http://documentation.fring.com/index.php?title=Supported_Handsets. S*ites visited* July 13, 2009)

[55] Similar considerations apply to misplaced claims that refusals by carriers that have made extensive investments in wireless data networks to provide automatic data roaming on the terms that certain carriers that have made limited investments data networks would prefer are somehow indicative of a lack of effective competition.

tethering) do not yet operate over AT&T's 3G network.[56] However, rather than indicating that the wireless market is uncompetitive, this example points out the importance of allowing exclusive handset arrangements so that carriers and handset manufacturers have incentives to work together to enable the operation of all features. Indeed, AT&T has announced that it is undertaking the necessary steps to implement those two additional features of the latest iPhone in the very near future.[57]

C. PRICING

47. CFA *et al.* assert that wireless carriers engage in parallel pricing and that such pricing is indicative of collusion.[58] These claims lack either an empirical or theoretical basis. First, empirical data indicate that carriers do not engage in parallel pricing. This is so for two reasons. One, the prices themselves are not equal and do not move in lock step.[59] Second, wireless operators offer multi-dimensional services that vary across carriers. Hence, even if nominal prices were the same across carriers, the quality-adjusted prices would not be. Turning to economic theory, it has long been recognized that, in equilibrium, perfectly

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56 *CFA Comments* at 12-13.

57 AT&T has stated that "Later this summer, as part of the 3.0 software, AT&T will make multimedia messaging (MMS) available at no extra cost to customers with a text messaging bundle. And, in the future, AT&T will offer tethering capability for iPhone 3G S and iPhone 3G."AT&T, "iPhone 3G S Frequently Asked Questions," *available at* http://www.wireless.att.com/learn/internet/iphone-faq.jsp, *site visited* July 11, 2009.)

58 *CFA Comments* at 8.

59 For short message services, for example, the timing of changes in per message prices of the four largest wireless companies has varied, and the companies offer a variety of monthly plans with different characteristics. (Testimony of Randal S. Milch, Executive Vice President And General Counsel, Verizon Communications Inc., before the Subcommittee on Antitrust, Competition Policy, and Consumer Rights, Committee on the Judiciary, United States Senate, Cell Phone Text Messaging Rates Increases and the State of Competition in the Wireless Market, June 16, 2009 (hereinafter *Milch Testimony*) at 16-18.)

competitive firms will all charge the same price as one another. Hence, it is simply false to assert that evidence of parallel pricing (if it existed) would establish that service providers were engaged in a collective exercise of market power.[60]

48. CFA *et al.* also make incorrect claims about the relationship between the prices and underlying costs of short message services (SMS, commonly known as "text" messaging services).[61] CFA *et al.* make false or misleading claims about both costs and prices. First, CFA *et al.* make the false claim that text message services consume no spectrum resources and are essentially costless to provide.[62] In fact, text messages consume radio, backhaul, and server capacity. High volumes of SMS traffic force carriers to undertake additional facilities investment in order to avoid degrading their voice, data, and SMS offerings. Moreover, the provision of SMS requires the construction and operation of certain dedicated facilities.

49. In addition to making misleading claims about costs, CFA *et al.* make misleading claims about SMS prices. Specifically, CFA *et al.* focus on the price per text message in those cases in which the consumer has not subscribed to a text messaging plan.[63] This focus is misleading because 99 percent of all text messages sent by AT&T and Verizon Wireless's

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60 Courts recognize that parallel pricing is as consistent with competition as with collusion. For example, the Supreme Court has found that more than evidence of parallel pricing is needed in order to bring a Section 1 claim under the Sherman Act. (See *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955.)

61 *CFA Comments* at 11.

62 *CFA Comments* at 11 assert

> Text messaging files are very small, and the price of their transmission is negligible for the provider….The text message is a free rider inside a so-called 'control channel,' or space that is already being used to operate the wireless network. In other words, a text message does not use up any extra spectrum once the carrier pays the cost of the underlying infrastructure and storage equipment.

customers are priced under a text message pricing plan.[64] Rather than the $0.20 per message cited by CFA *et al.*, the average price per text message for AT&T customers was $0.014 in March 2009.[65] For Verizon Wireless customers, the average price per text message was about $0.0104 in April 2009.[66] Hence, the price cited by CFA *et al.* is over 1,300 percent greater than the average price actually paid by AT&T and Verizon Wireless's customers. Moreover, the March 2009, price for AT&T services constitutes a 67 percent decline from the average price of $0.043 in January 2007, while the price for Verizon Wireless services in 2009 constitutes a 62 percent decline from the average price of $0.028 in December 2006.[67] Thus, the pricing trend in text messaging is exactly the opposite of what CFA *et al.* claim. Rather than text prices being high and rising (as claimed by CFA *et al.*), text prices are, in fact, low and declining.

50. CFA *et al.* assert that the fact that U.S. consumers pay more, on a per subscriber basis, than the average consumer in other OECD countries indicates that CMRS is not competitive in the U.S.[68] This analysis is superficial and incomplete. In addition to examining average spend, one would have to examine the quantity and quality of the services for which consumers are paying. U.S. subscribers, for example, used an average of 3,287 outgoing

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63 *CFA Comments* at 10.

64 Statement of Wayne Watts, Senior Executive Vice President & General Counsel, AT&T Inc., before the Subcommittee on Antitrust, Competition Policy, and Consumer Rights, Committee on the Judiciary, United States Senate, Hearing on Cell Phone Text Messaging Rate Increases and the State of Competition in the Wireless Market, June 16, 2009 (hereinafter, *Watts Testimony*) at 4; *Milch Testimony* at 5.

65 *Watts Testimony* at 5.

66 *Milch Testimony* at 12.

67 *Watts Testimony* at 4-5; *Milch Testimony* at 12.

mobile minutes in 2005. Only Canada had a higher number of outgoing minutes per subscriber (3,856), and all other OECD countries for which data were available had much lower average outgoing minutes.[69] Given that U.S. consumers purchase many more mobile voice services than consumers in other OECD countries, it should hardly be surprising that U.S. consumers pay more, in total, for those services.

D. EARLY TERMINATION FEES

51. Commenters who contend that early termination fees are both a cause and consequence of market power[70] ignore: (a) the fact that early termination fees support handset subsidies that many consumers find highly desirable, (b) economic scholarship showing that early termination fees can intensify competition. Effect (b) arises because a carrier is willing to compete very vigorously to attract consumers who are then more likely to stay with that carrier.

VI. EFFECTIVE COMPETITION DOES NOT REQUIRE PERFECT COMPETITION

52. As observed above, it is widely understood that real-world markets exhibit varying degrees of imperfect competition. This fact raises the following question: How competitive is competitive enough? Put another way: When competition is imperfect, when is it nevertheless "effective?"

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68 *CFA Comments* at 8.

69 Calculations from data provided in OECD, *OECD Telecommunications Outlook, 2007*, Table 4.7. Cellular Mobile Subscribers in the OECD Area, and Table 4.10: Total Outgoing Mobile Minutes, *available at* www.oecd.org/sti/telecom/outlook. Note that the average revenue data cited in the *CFA Comments* are for 2005, not 2007 as stated.

53. Reliable answers to these queries cannot be developed in isolation. In order to establish a meaningful benchmark, one must proceed with an underlying policy issue or objective in mind. For example, one useful question would be the following: When is a market competitive enough that consumers are better served by permitting the unfettered operation of market forces rather than subjecting suppliers to extensive regulation?[71]

54. There is a consensus among economists that market outcomes generally possess desirable characteristics barring certain *market failures*.[72, 73]

55. Critical to economically sound policy-making is a recognition that a market's imperfect operation does not imply that regulation is desirable. Like competition, regulation is never perfect in practice, and the costs and benefits of intervention must be carefully assessed and balanced.[74] Economic welfare depends on the net effect of policy intervention,

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70 *CFA Comments* at 14-15.

71 Of course, some degree of government intervention in markets is almost always needed. There is a consensus among economists that government intervention is fundamental to the existence of well-functioning markets: governments define property rights and enforce contracts, which greatly facilitate private commercial activity. This type of intervention is very different than what is typically meant by "regulation" in discussions of telecommunications policy.

72 Although there is more than one possible taxonomy, a useful one is that market failures can arise from: (a) significant market power; (b) externalities or missing markets; and (c) asymmetric information.

73 There is also a consensus among economists that market outcomes do not necessarily coincide with social and political conceptions of fairness. A common response is to call for a division of labor in policies under which economy-wide tax schemes are used to redistribute income to achieve fairness, and market-specific governmental intervention is limited to correcting market failures or ameliorating their effects.

74 These costs may include not only the administrative costs of regulation, but also the unintended, deleterious effects of regulation on market performance and efficiency.

i.e., the difference between benefits and costs. A policy is efficiency-enhancing only if its benefits exceed its costs.

56. In its determination of whether a market is "effectively competitive," the Commission should ask whether, given the structure and performance of the market, pervasive government regulation would be expected to yield a net benefit, *i.e.*, be efficiency-enhancing. If the answer is "no," then regulation would be counterproductive and thus unwarranted.

57. Imposing broad regulatory burdens on competitive firms where no or only very limited regulation is warranted will be costly to firms, will distort competition, and will harm consumers. The Commission should not intervene in the CMRS industry unless there is strong evidence that there is a competitive problem.

58. The Commission's historical consideration of market performance and conduct metrics has provided useful indicators of whether competition among service providers is advancing consumer welfare through the expansion of service offerings, the development and promotion of innovative technologies, and the lowering of prices. For the past decade, those indicators, as well as well as other marketplace facts have *not* indicated a problem rising to the level where regulatory intervention is warranted. In its most recent study of CMRS competition, the Commission reported that 94 percent of all United States consumers had access to four or more wireless competitors.[75] Output, prices, data speeds, broadband coverage, quality, and investment all continue to exhibit positive trends.[76] And innovation is

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[75] *Thirteenth CMRS Competition Report*, ¶ 41.

[76] *Thirteenth CMRS Competition Report*, ¶¶ 197 (increase in subscribership), 201 (increase in data subscribership), 208 (increase in minutes of use), 210 (increase in text/SMS traffic), 188

occurring at a significant pace as providers compete to offer new wireless features, functionalities, devices and applications.

59. In addition, none of the conduct identified by commenters and discussed in Section V above is inconsistent with effective competition. Nonetheless, it is useful to observe that, even if some carrier were shown to have engaged in behavior that could not be explained as competitive activity, such a showing would not mean that one could conclude that the market was not effectively competitive or that regulation was warranted. Before reaching such conclusions, one would have to assess: (a) whether competition from other carriers limited any adverse effects of the behavior at issue; (b) whether consumers would seek alternative suppliers so that the carrier in question would be induced to modify its behavior in the longer run; and (c) whether there was any feasible regulatory intervention for which the expected benefits were greater than the expected costs.

VII. THE COMMISSION SHOULD REJECT REQUESTS THAT IT HARM COMPETITION AND PROTECT SPECIFIC COMPETITORS

60. Commenters representing smaller wireless service providers have in several instances confused consumer welfare with competitor welfare. They have asked the Commission for a laundry list of special concessions that may benefit these service providers as competitors but will not strengthen competition. Indeed, granting these concessions would weaken competition because it would weaken the incentives of both larger and smaller wireless carriers to invest and compete.

(decrease in average price of voice services), 194 (decrease in average price of text/SMS services), 205 (increase in usage of mobile broadband), 155 (large capital expenditures), 159 (investments in network infrastructure and additional spectrum to improve network quality).

A. EXTENSION OF ROAMING OBLIGATIONS

61. Several commenters have asked that the Commission impose on wireless carriers an automatic data roaming obligation and that the obligation extend not only to currently available technologies for carrying data traffic but to future technologies as well.[77, 78] Commenters assert that the imposition of such an obligation would enhance competition.[79] There are, however, sound reasons to conclude that the opposite is true.

62. There are at least two broad mechanisms through which mandatory roaming can adversely affect network investment and, hence, competition. First, if a service provider is forced to share portions of its facilities with rival providers, then it will have diminished investment incentives because that investment will not be a source of competitive advantage. Rival providers' use of the shared input may lead them to increase the intensity of their other competitive activities, which harms the investing service provider. Absent a duty to deal, a service provider would not worry that other providers would use the facilities or programming funded by its investments to compete against it. Consequently, the service provider will have lower investment incentives when it is subject to a duty to deal.

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[77] Comments Of Cricket Communications, Inc., *In the Matter of Implementation of Section 6002(b) of the) WT Docket No. 09-66 Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions with respect to Commercial Mobile Services*, WT Docket No. 09-66, June 15, 2009 (hereinafter *Cricket Comments*) at 11; *MetroPCS Comments* at 13, 18; Comments of the Rural Telecommunications Group, Inc., *In the Matter of Fourteenth Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Service*, WT Docket No. 09-66, § VI.

[78] "Automatic" voice, SMS, or data roaming arrangements allow customers of one wireless company to use their handsets for voice, SMS, or data functions, respectively, when roaming on another company's network without entering additional codes or obtaining credit authorizations.

[79] *Cricket Comments* at 11.

63. Second, mandatory roaming can adversely affect the investment incentives of service providers that can take advantage of the regulations to gain access to other service provider's facilities. This type of regulation is intended to stimulate complementary investment, and in some instances it can do so. But mandatory roaming at relatively low prices can undermine the incentives of the service providers gaining access to the facilities of other providers to make their own investments—why invest in your own network when another carrier can be forced to make the investment for you?

64. In summary, an automatic data roaming obligation would discourage large carriers from continuing to invest in advanced networks that can deliver data services because those networks would no longer be a point of differentiation from other networks. Furthermore, an automatic data roaming obligation would discourage smaller carriers from building out their own advanced networks to compete with the larger carriers.

65. These concerns are not just theoretical. In its comments, Cricket Communications claims that "A roaming obligation for data services…would also promote facilities investment and improve the provision of data services to poor and rural communities caught on the wrong side of the digital divide."[80] However, statements made by Leap Wireless International, Inc.—Cricket's parent company—to the investment community tell a very different story:

> Leap keeps costs low by engineering high-quality, efficient networks *covering only the urban and suburban areas* of our markets where most of our potential customers live, work and play. Leap does not incur the cost of maintaining a network or purchasing licenses simply to provide continuous geographic

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[80] *Cricket Comments* at 11.

coverage across broad areas.[81]

In other words, Leap is leaving it to other carriers to undertake the costly investments necessary to serve rural consumers. Rather than encouraging investment in data networks for underserved communities, imposing automatic data roaming obligations would make it possible for Leap/Cricket to continue to avoid building out its own data networks and avoid competing with other companies for the very rural communities whose situation it laments.[82]

66. Several commenters have asked that the Commission extend its in-market roaming requirements for voice services. Currently, carriers must be given access to automatic voice roaming in any market in which they do not hold spectrum rights.[83] Some commenters want this obligation extended to any market in which the carrier requesting the roaming services does not actually offer network coverage, even if the requesting carrier holds a spectrum license for the area in question.[84] For the same reasons just discussed with respect to data roaming, such a policy would benefit select competitors, but would very likely harm competition and consumers.

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81 Corporate Profile, Leap Wireless, *available at* http://phx.corporate-ir.net/phoenix.zhtml?c=95536&p=irol-homeProfile&t=&id=&, *site visited* July 8, 2009 [emphasis added].

82 MetroPCS is another commenter that favors mandatory data roaming (*MetroPCS Comments* at 13) but apparently avoids rural areas: "We offer wireless broadband personal communication services, or PCS, on a no long-term contract, flat rate, unlimited usage basis in *selected major metropolitan areas* in the United States." (Investor Overview, MetroPCS, *available at* http://investor.metropcs.com/phoenix.zhtml?c=177745&p=irol-IRHome, *site visited* July 8, 2009 [emphasis added].)

83 47 CFR 20.12(d).

84 *CFA Comments* 28-30; *MetroPCS Comments* at 13-19; *BHN Comments* at 9.

B. EXCLUSIVE HANDSET DISTRIBUTION ARRANGEMENTS

67. Several smaller wireless carriers have asserted that exclusive distribution arrangements between handset manufacturers and large, national carriers impair competition and/or have asked the Commission to examine limiting the ability of handset manufacturers to enter into such arrangements.[85] However, as discussed in Section V.A above, these arrangements are pro-competitive. These comments are equating harm to competitors' commercial interests with harm to competition.[86]

C. A SPECTRUM CAP AND OTHER RESTRICTIONS ON COMPETITION FOR LICENSE RIGHTS

68. Commenters have asked that the Commission limit wireless service providers' abilities to bid on new spectrum.[87] Although it is understandable that small carriers would prefer to reduce the number of bidders for spectrum and therefore reduce the competition that they face, such a restriction on competition would not benefit consumers.

69. As I have explained at length elsewhere, a binding spectrum cap would distort and attenuate competition.[88] Most fundamentally, such a cap would restrict competition by

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85 *MetroPCS Comments* at 9-10; *Cellular South Comments* at 8-10.

86 For example, Cellular South repeatedly complains that handset exclusivity deals entered into by large carriers make it more difficult for Cellular South and other small carriers to attract consumers and thus are "harmful to rural and smaller regional carriers." (*Cellular South Comments* at ii, 13, 14, 17, 18.) MetroPCS, despite describing the CMRS market as "competitive," complains that exclusive handset arrangement make it more difficult for small carriers to compete. (*MetroPCS Comments* at ii and 10.)

87 *Cricket Comments* at 11.

88 Michael L. Katz, "An Economic Analysis of the Rural Telecommunications Group's Proposed Spectrum Cap," December 2, 2008, Appendix A to Opposition of Verizon Wireless, *In the Matter of Rural Telecommunications Group Petition for Rulemaking to Impose a Spectrum Aggregation Limit on all Commercial Terrestrial Wireless Spectrum Below 2.3 GHz*, RM-11498, December 2, 2008.

restricting output. A spectrum cap would restrict output because it would make it more difficult and costly (and, in some cases, impossible) for a service provider to expand when it had developed, or—in the case of innovation—was contemplating the development of, a service or device that required additional spectrum to meet consumer demand. A spectrum cap would thus harm consumers through the resulting combination of higher prices, lower service quality, and diminished innovation in service and handset offerings.

70. There are several mechanisms through which a binding spectrum cap would harm competition and consumers, and would lead to economic inefficiency:

- A spectrum cap would force firms constrained by the cap to use an inefficient input mix. The effect would be to raise the costs of expanding service. Economic analysis clearly indicates that raising the marginal costs of successful wireless service providers would generally induce those firms to charge higher prices and sell less of their services. Consumers who continued to subscribe to these carriers—or who would have subscribed to them at the lower prices the carriers would have charged absent the cap—would be harmed.

- Smaller wireless carriers might not find a spectrum cap to be a constraint on their behavior. However, to the extent that the significant rivals of these smaller carriers were constrained by the cap and, thus, charged higher prices or otherwise competed less aggressively, these smaller carriers could also be expected to compete less vigorously. Stated plainly, a binding spectrum cap could create a pricing umbrella for smaller service providers. The result would be lower industry output and higher

equilibrium prices. Although those carriers unconstrained by the spectrum cap would gain from the loss of competition, consumers would be harmed.

- The harms to competition and consumers would not be limited to static effects. Innovation would also be harmed. To see why, consider a carrier that was deciding whether to develop and introduce a new service or device that was projected to be very popular with consumers and would increase the carrier's need for spectrum. If the spectrum cap were a binding constraint on the carrier, it would find it more difficult and/or costly to introduce the new service or device. For example, introducing the new service while being unable to expand the carrier's network capacity might lead to network congestion and service degradation. The result would be to weaken innovation incentives and discourage dynamic competition.

- Lastly, in addition to the harm to consumers, there would be efficiency losses resulting from the reallocation of output from service providers that had relatively low costs (and, thus, would tend to have higher market shares and spectrum demands) to service providers that had relatively high costs (and, thus, would tend to have low market shares and low spectrum demands).[89]

These costs of a spectrum cap are particularly striking in comparison with the low potential benefits of a cap given the presence of antitrust policies, such as merger review, that limit the acquisition of spectrum in those instances where it would truly be anticompetitive (*e.g.*, through certain mergers).

D. SPECIAL ACCESS

71. CFA *et al.* and Sprint-Nextel assert that special access pricing distorts competition in the wireless marketplace, both among wireless service providers[90] and between wireless and wireline service providers.[91] Many of the issues raised in these comments pertain to the relevant markets for special access services, not to the CMRS offerings that are the subject of the present proceeding. I have not studied the competitiveness of the special access business and, thus, cannot offer a full assessment of these commenters' claims regarding the conditions of those markets.[92] Instead, I will offer two observations relevant to the assessment of effective competition in the CMRS marketplace. First, despite its claim that wireless competition is distorted, Sprint-Nextel states that there is "intense competition among wireless carriers."[93] Second, the claims made by both Sprint-Nextel and CFA *et al.* that special access pricing distorts or weakens CMRS competition fails to apply the relevant economic concepts correctly. One such concept is opportunity cost. If, as these commenters allege, the suppliers of special access earn very high returns on their sales of special access

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89 The relative costs refer to differences in costs after taking into account any differences in service qualities.

90 Comments of Sprint-Nextel Corporation, *In the Matter of Commercial Mobile Radio Services Market Competition*, WT Docket No. 09-66, June 15, 2009 (hereinafter, *Sprint Comments*), § II; *CFA Comments*, § III.A.

91 *Sprint Comments*, § II.

92 That said, I observe in passing that Sprint-Nextel's analysis of prices per Mbps (*Sprint Comments* at 5) is highly flawed. Among other problems, it fails to account for differences in the nature of the services (asymmetric versus symmetric connection speeds) and the traffic patterns of the users (*e.g.*, a single household versus a wireless carrier that is multiplexing the signals of many different end users).

Similarly, Sprint-Nextel's claims about special access providers' profits (*Sprint Comments* at 6) do not confront the difficulties inherent in attempting to infer economic profits or the degree of competition from accounting metrics. See Section IV above.

services to non-affiliated wireless service providers, then favoring their own wireless affiliates in ways that take sales from unaffiliated service providers would cause them to forgo those profits. Recognition of opportunity costs thus creates incentives for an economically rational, integrated supplier of special access and wireless services not to distort competition in favor of its own affiliate. Stated differently, Sprint-Nextel is asserting that AT&T foregoes the opportunity to earn very high special access returns in order to win business in the wireless segment that it recognizes is intensely competitive. Moreover, the claims by Sprint-Nextel and CFA *et al.* that special access providers earn high profits from those services tends to undermine the conclusion that special access is being priced in an exclusionary fashion. If special access prices were being used for exclusionary purposes, one would expect to see evidence that those prices were elevated above the levels that would maximize the profits derived from special access sales. Lastly, it is incorrect to equate the level of an input price with the degree of competition in an output market. For example, it would be a mistake to assert that the airline industry is less competitive whenever aviation fuel prices rise.

VIII. CONCLUSION

72. The Commission has sought comment on whether it should continue to utilize a range of economic indicators to gauge competition in the provision of CMRS, or in the alternative to "define effective competition in a more specific manner."[94] The Commission also sought comment on which "specific criteria should be used to determine whether there is 'effective

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[93] *Sprint Comments* at 7.

competition' among CMRS providers."[95] For the reasons explained above, there is no simple formula or recipe that can be utilized reliably to assess competitive performance. Rather, the concept of effective competition is best understood, and its measurement best undertaken, through an examination of a range of well-established economic indicia.

73. The discussion above indicates some of what can go wrong with simplistic analysis. No one measure of competition is perfect, particularly in a complex and dynamic industry like CMRS, and some of the measures proposed or advocated by the Commission and/or commenters have serious shortcomings that limit their applicability or caution against their use altogether. In particular, with respect to the proposed use of accounting measures and the Lerner Index, reliance upon such metrics would lead to distorted assessments of competition and, quite possibly, incorrect indications of the need for regulatory intervention that would undermine—rather than promote—effective competition and consumer welfare.

74. Past Commission analyses have been rooted in a comprehensive assessment of indicia well-understood by economists as highly probative of a market's competitive performance. To abandon this longstanding approach in favor of a simple and rigid formula could distort the Commission's assessment of competition in CMRS, generate misleading results, and ultimately risk the imposition of regulatory intervention that is both costly and counterproductive to the promotion of economic efficiency and consumer welfare. Therefore, in order to promote the goal of effective competition in CMRS, the Commission should continue critically and carefully to examine multiple indicators of competition.

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[94] *Public Notice* at 3.

[95] *Public Notice* at 2.

APPENDIX: QUALIFICATIONS

75. I hold the Sarin Chair in Strategy and Leadership at the University of California, Berkeley, where I have a joint appointment in the Haas School of Business Administration and the Department of Economics. I have served as the Harvey Golub Professor of Business Leadership at New York University's Stern School of Business and on the faculty of the Department of Economics at Princeton University. I received my A.B. from Harvard University *summa cum laude* and my doctorate from Oxford University. Both degrees are in Economics.

76. I specialize in the economics of industrial organization, which includes the study of antitrust and regulatory policies. I regularly teach courses on microeconomics and business strategy. I am the co-author of a microeconomics textbook, and I have published numerous articles in academic journals and books. I have written academic articles on issues regarding the economics of network industries, systems markets, antitrust enforcement, and telecommunications policy. I am recognized as one of the pioneers in extending the theory of network effects to competitive settings. I am a co-editor of the *Journal of Economics and Management Strategy* and serve on the editorial boards of *Information Economics and Policy* and the *Journal of Industrial Economics*. I recently completed a term on the Computer Science and Telecommunications Board of the National Academies.

77. In addition to my academic experience, I have consulted on the application of economic analysis to issues of antitrust and regulatory policy. I have served as a consultant to both the U.S. Department of Justice and the Federal Communications Commission on issues of antitrust and regulatory policy. I have served as an expert witness before state and federal

courts. I have also provided testimony before state regulatory commissions and the U.S. Congress.

78. From January 1994 through January 1996, I served as the Chief Economist of the Federal Communications Commission under the Clinton Administration. I participated in the formulation and analysis of policies toward all industries under Commission jurisdiction. As Chief Economist, I oversaw both qualitative and quantitative policy analyses.

79. From September 2001 through January 2003, I served as the Deputy Assistant Attorney General for Economic Analysis at the U.S. Department of Justice under the Bush Administration. I directed a staff of approximately fifty economists conducting analyses of economic issues arising in both merger and non-merger enforcement. Our principal professional focus was on understanding and projecting the impacts of various business practices and public policy decisions on consumers' economic welfare. My title as Deputy Assistant Attorney General notwithstanding, I am not an attorney.

EXHIBIT B

SAMPLE VOICE AND DATA PLANS FOR T-MOBILE, SPRINT, VERIZON AND AT&T

PUBLIC VERSION

English | Español

T-Mobile stick together

Location: Washington, DC 20005 | Store Locator | Cart

My T-Mobile phone # password log in

forgot password? › register ›

Home › Plans › Individual Plans

What type of plan are you looking for?

Individual
Family
Packages
T-Mobile @Home
Internet & Email
Prepaid
FlexPay - Monthly
Business

Price Per Month

- Under $40
- $41 - $60
- $61 - $80
- $81 - $100
- Above $100

Whenever Minutes

- 300 - 600
- 700 - 1000
- 1500- 2500
- 3000 - 5000
- Unlimited

Plan Type

- MyFaves
- FlexPay

Value made easy:
Popular plans, + any phone you like!
Shop packages >

Individual Plans

Individual myFaves
Individual
Individual myFaves with FlexPay
Individual with FlexPay

Individual myFaves® Plans

myFaves plans give you unlimited nationwide calls to the five numbers you call most, as well as free domestic long distance and no digital roaming charges anywhere across the US. All myFaves plans $49.99/month and over include unlimited T-Mobile to T-Mobile calling, too! All myFaves plans require a two-year contract.

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
myFaves 300	300	Unlimited	Unlimited	$39.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 600	600	Unlimited	Unlimited	$49.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 1000	1000	Unlimited	Unlimited	$59.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 1500	1500	Unlimited	Unlimited	$69.99	add to cart compare

Individual Plans

↑ top

Get great value with the most minutes. National plans give you free domestic long distance and no digital roaming charges anywhere across the US. All plans $49.99/month and over include unlimited T-Mobile to T-Mobile calling, too! Choose a regional plan for free long distance and no digital roaming charges while you're inside the specified region. Click on the plan name for specific region details. All individual plans require a two-year contract.

CO Rem. Ex. S.00055

PUBLIC VERSION

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
DC/Baltimore Regional Rate Plan	3000	Local plans that go the distance.		$49.99	add to cart compare
Individual 300	300	Unlimited Weekends	N/A	$29.99	add to cart compare
Individual 1000	1000	None	N/A	$39.99	add to cart compare
Individual 600	600	Unlimited	N/A	$39.99	add to cart compare
Limited Time Offer					
Individual Plus Promotional	1000	Unlimited	N/A	$39.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
Individual 1000 Plus	1000	Unlimited	N/A	$49.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
Individual 1500	1500	Unlimited	N/A	$59.99	add to cart compare
Individual Unlimited	Unlimited	Unlimited	Unlimited	$99.99	add to cart compare

Individual myFaves with FlexPay

↑ top

Call the people who matter most to you—regardless of which carrier they use. myFaves plans give you unlimited calls to the five numbers you call most, as well as free domestic long distance and no digital roaming charges anywhere across the US. All myFaves plans $49.99/month and over include unlimited T-Mobile to T-Mobile calling, too!

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
myFaves 300 with FlexPay	300	Unlimited	Unlimited	$39.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 600 with FlexPay	600	Unlimited	Unlimited	$49.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 1000 with FlexPay	1000	Unlimited	Unlimited	$59.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 1500 with FlexPay	1500	Unlimited	Unlimited	$69.99	add to cart compare

CO Rem. Ex. S.00056

PUBLIC VERSION

Individual with FlexPay

↑ top

Get great value with the most minutes. National plans give you free domestic long distance and no digital roaming charges anywhere across the US. All plans $49.99/month and over include unlimited T-Mobile to T-Mobile calling, too!

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
Individual 300 with FlexPay	300	Unlimited Weekends	N/A	$29.99	add to cart compare
Limited Time Offer					
Individual 1000 Plus with FlexPay Promotional	1000	Unlimited	N/A	$39.99	add to cart compare
Individual 600 with FlexPay	600	Unlimited	N/A	$39.99	add to cart compare
Individual 1000 with FlexPay	1000	None	N/A	$39.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
Individual 1000 Plus with FlexPay	1000	Unlimited	N/A	$49.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
Individual 1500 with FlexPay	1500	Unlimited	N/A	$59.99	add to cart compare
Individual Unlimited with FlexPay	Unlimited	Unlimited	Unlimited	$99.99	add to cart compare

compare

Prices exclusive to T-Mobile.com and valid only with new service activation.

CO Rem. Ex. S.00057

PUBLIC VERSION

English | Español

T-Mobile stick together

Location: Washington, DC 20005 | Store Locator | Cart

My T-Mobile phone # password log in

forgot password? › register ›

Home › Plans › Family Plans

What type of plan are you looking for?

Individual
Family
Packages
T-Mobile @Home
Internet & Email
Prepaid
FlexPay - Monthly
Business

Price Per Month

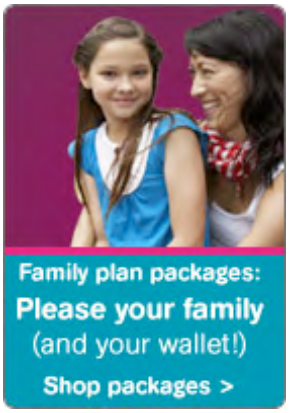
- Under $40
- $41 - $60
- $61 - $80
- $81 - $100
- Above $100

Whenever Minutes

- 300 - 600
- 700 - 1000
- 1500- 2500
- 3000 - 5000
- Unlimited

Plan Type

- MyFaves
- FlexPay



Family Plans

Family myFaves
FamilyTime
Family myFaves with FlexPay
FamilyTime with FlexPay

compare

Family myFaves® Plans

myFaves for families plans give you unlimited calls to the five numbers you call most—and everyone can choose their own top five. You'll get two lines, up to three more lines at just $9.99/month each, and a shared pool of Whenever Minutes®. You'll get unlimited nights and weekends and unlimited nationwide T-Mobile to T-Mobile calling, too. All family plans require a two-year contract.

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
myFaves for families 400	400	Unlimited	Unlimited	$69.99	add to cart compare
myFaves for families 700	700	Unlimited	Unlimited	$79.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 1800	1800	Unlimited	Unlimited	$89.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 2500	2500	Unlimited	Unlimited	$109.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 3500	3500	Unlimited	Unlimited	$139.99	add to cart compare

FamilyTime Plans

↑ top

With FamilyTime plans, you can stay connected and save as you share Whenever Minutes®. You'll get 2 lines with the plan, and if eligible, you can add up to 3 more lines for an additional charge. Plus, you'll get unlimited nationwide T-Mobile-to-T-

CO Rem. Ex. S.00058

PUBLIC VERSION

Mobile calling and unlimited nights and weekends! All family plans require a two-year contract.

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
FamilyTime 700	700	Unlimited	N/A	$59.99	add to cart compare
FamilyTime 1000	1000	Unlimited	N/A	$69.99	add to cart compare
Get More Minutes For Your Money!					
FamilyTime 2500	2500	Unlimited	N/A	$99.99	add to cart compare
Get More Minutes For Your Money!					
FamilyTime 3500	3500	Unlimited	N/A	$129.99	add to cart compare
FamilyTime Unlimited	Unlimited	Unlimited	Unlimited	$149.98	add to cart compare

Family myFaves with FlexPay

↑ top

myFaves for families plans give you unlimited calls to the five numbers you call most—and everyone can choose their own top five. You'll get two lines with the plan, and if you're eligible, you can add more lines for an additional charge. You'll also get plenty of Whenever Minutes® to share, unlimited nights and weekends, and unlimited T-Mobile to T-Mobile calling.

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
myFaves for families 400 with FlexPay	400	Unlimited	Unlimited	$69.99	add to cart compare
myFaves for families 700 with FlexPay	700	Unlimited	Unlimited	$79.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 1800 with FlexPay	1800	Unlimited	Unlimited	$89.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 2500 with FlexPay	2500	Unlimited	Unlimited	$109.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 3500 with FlexPay	3500	Unlimited	Unlimited	$139.99	add to cart compare

FamilyTime with FlexPay

↑ top

With FamilyTime plans, you can stay connected and save as you share Whenever

CO Rem. Ex. S.00059

PUBLIC VERSION

Minutes®. You'll get two lines with the plan, and if you're eligible, you can add more lines for an additional charge. Plus, you'll get unlimited nationwide T-Mobile to T-Mobile calling and unlimited nights and weekends!

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
Family Time 700 with FlexPay	700	Unlimited	N/A	$59.99	add to cart compare
FamilyTime 1000 with FlexPay	1000	Unlimited	N/A	$69.99	add to cart compare
Get More Minutes For Your Money!					
FamilyTime 2500 with FlexPay	2500	Unlimited	N/A	$99.99	add to cart compare
Get More Minutes For Your Money!					
FamilyTime 3500 with FlexPay	3500	Unlimited	N/A	$129.99	add to cart compare
FamilyTime Unlimited with FlexPay	Unlimited	Unlimited	Unlimited	$149.98	add to cart compare

compare

Prices exclusive to T-Mobile.com and valid only with new service activation.

CO Rem. Ex. S.00060

PUBLIC VERSION

English | Español

Location: Washington, DC 20005 | Store Locator | Cart

My T-Mobile phone # password log in

forgot password? › register ›

Home › Plans › FlexPay - Monthly Plans

What type of plan are you looking for?

- Individual
- Family
- Packages
- T-Mobile @Home
- Internet & Email
- Prepaid
- FlexPay - Monthly
- Business

Price Per Month

- Under $40
- $41 - $60
- $61 - $80
- $81 - $100
- Above $100

Whenever Minutes

- 300 - 600
- 700 - 1000
- 1500- 2500
- 3000 - 5000
- Unlimited

Plan Type

- MyFaves
- FlexPay

Coverage Check

Check coverage for your FlexPay℠ plan

Learn More ›

FlexPay - Monthly Plans

- Individual myFaves FlexPay
- Individual FlexPay
- Family myFaves FlexPay
- FamilyTime FlexPay

compare

Individual myFaves with FlexPay

Call the people who matter most to you—regardless of which carrier they use. myFaves plans give you unlimited calls to the five numbers you call most, as well as free domestic long distance and no digital roaming charges anywhere across the US. All myFaves plans $49.99/month and over include unlimited T-Mobile to T-Mobile calling, too!

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
myFaves 300 with FlexPay	300	Unlimited	Unlimited	$39.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 600 with FlexPay	600	Unlimited	Unlimited	$49.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 1000 with FlexPay	1000	Unlimited	Unlimited	$59.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
myFaves 1500 with FlexPay	1500	Unlimited	Unlimited	$69.99	add to cart compare

Individual with FlexPay

↑ top

Get great value with the most minutes. National plans give you free domestic long distance and no digital roaming charges anywhere across the US. All plans $49.99/month and over include unlimited T-Mobile to T-Mobile calling, too!

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month

CO Rem. Ex. S.00061

PUBLIC VERSION

Individual 300 with FlexPay	300	Unlimited Weekends	N/A	$29.99	add to cart compare
Individual 600 with FlexPay	600	Unlimited	N/A	$39.99	add to cart compare
Individual 1000 with FlexPay	1000	None	N/A	$39.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
Individual 1000 Plus with FlexPay	1000	Unlimited	N/A	$49.99	add to cart compare
Now Includes Unlimited T-Mobile To T-Mobile Calling!					
Individual 1500 with FlexPay	1500	Unlimited	N/A	$59.99	add to cart compare
Individual Unlimited with FlexPay	Unlimited	Unlimited	Unlimited	$99.99	add to cart compare

Family myFaves with FlexPay

↑ top

myFaves for families plans give you unlimited calls to the five numbers you call most—and everyone can choose their own top five. You'll get two lines with the plan, and if you're eligible, you can add more lines for an additional charge. You'll also get plenty of Whenever Minutes® to share, unlimited nights and weekends, and unlimited T-Mobile to T-Mobile calling.

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
myFaves for families 400 with FlexPay	400	Unlimited	Unlimited	$69.99	add to cart compare
myFaves for families 700 with FlexPay	700	Unlimited	Unlimited	$79.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 1800 with FlexPay	1800	Unlimited	Unlimited	$89.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 2500 with FlexPay	2500	Unlimited	Unlimited	$109.99	add to cart compare
Get More Minutes For Your Money!					
myFaves for families 3500 with FlexPay	3500	Unlimited	Unlimited	$139.99	add to cart compare

FamilyTime with FlexPay

↑ top

With FamilyTime plans, you can stay connected and save as you share Whenever Minutes®. You'll get two lines with the plan, and if you're eligible, you can add more lines for an additional charge. Plus, you'll get unlimited nationwide T-Mobile to T-

CO Rem. Ex. S.00062

PUBLIC VERSION

Mobile calling and unlimited nights and weekends!

Plan name	Whenever Minutes	Weekend/ Night Mins	myFaves Minutes	Price per month	
Family Time 700 with FlexPay	700	Unlimited	N/A	$59.99	add to cart compare
FamilyTime 1000 with FlexPay	1000	Unlimited	N/A	$69.99	add to cart compare
Get More Minutes For Your Money!					
FamilyTime 2500 with FlexPay	2500	Unlimited	N/A	$99.99	add to cart compare
Get More Minutes For Your Money!					
FamilyTime 3500 with FlexPay	3500	Unlimited	N/A	$129.99	add to cart compare
FamilyTime Unlimited with FlexPay	Unlimited	Unlimited	Unlimited	$149.98	add to cart compare

compare

*T-Mobile customers are bound by T-Mobile's Terms and Conditions.

CO Rem. Ex. S.00063

PUBLIC VERSION

English | Español

T-Mobile stick together

Location: Washington, DC 20005 | Store Locator | Cart

My T-Mobile phone # password log in

forgot password? › register ›

Home › Plans › Prepaid › Prepaid Plans

View All Plans

Prepaid Plans
Prepaid Phones
Prepaid Coverage
International Rates
Phone Activation
Refill Options

Prepaid customers: Register for My T-Mobile!

Track minutes used, refill your account, and more.

Register now >

Got Gold?

With Gold Rewards, get 15% more minutes—FREE!

Learn more

Restrictions apply.

FAQ

How can I get more minutes when I run out?

How do I know how many minutes I have left?

What's the difference between prepaid

Prepaid Plans: Great value, flexible options.

Get everything you want in a wireless plan—without an annual contract, credit check, or a monthly bill! Buy a Prepaid phone kit now; when you receive the phone, activate it online and choose one of our two Prepaid plans

Pay By The Day:
Pay only on the days you use your phone!

Pay As You Go:
Pay only for the minutes you use!

Buy a Prepaid phone kit now

Compare Prepaid plans:

	Pay By The Day	Pay As You Go	
Unlimited Nationwide Calling	From 7 pm to 7 am and to any T-Mobile number	None	
Per Minute Costs	**10¢/minute** all other domestic calls	Refill Amount	Minutes
		$10	30
		$25	130
		$50	400
		$100	1000
Daily Charge	**$1/day** only on the days you use your phone[1]	None	
Gold Rewards	None	Refill $100 or more and get 15% more minutes on all refills. Your balance lasts for 1 year[2]	

[1] Day is 12:00 am to 11:59 pm, based on time zone associated with your phone number.
[2] Service available for 90 days (1 year for $100 refill cards) after activation.

Included with every T-Mobile Prepaid plan:

Nationwide long distance (including calls to Alaska and Hawaii).
Nationwide roaming on the T-Mobile USA Network.
t-zones* (browsing for HiFi Ringers®, MegaTones®, wallpapers, and more)*.
VoiceMail, caller ID, call waiting, three-way calling**.
E-mail address (10digitnumber@tmomail.net).

*t-zones not available on all devices.
**Airtime rates apply to voicemail retrieval, each call during a conference call, and call waiting.

Additional services for your T-Mobile Prepaid plan+

CO Rem. Ex. S.00064

PUBLIC VERSION

plans and monthly calling plans?

Text messaging (10¢ to send, 5¢ to receive, except for Sidekick plan).
Picture messaging (25¢ to send and receive).
Ringtones and wallpaper (prices vary).
Games and applications (prices vary).
411 & More directory assistance ($1.79 per call plus airtime).
International dialing to over 150 countries (international rates apply).

Prepaid international roaming rate information ›

+Additional services not available on all phones.

Sidekick Prepaid

Love to message? Get a Sidekick Prepaid plan for just $1 a day.

Daily Charge Unlimited domestic e-mail, texting, IM and Web browsing	**$1/day**
Per Minute Costs	**15¢/minute**

Prepaid Terms and Conditions

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PUBLIC VERSION

English | Español

T-Mobile stick together

Location: Washington, DC 20005 | Store Locator | Cart

My T-Mobile phone # password log in

forgot password? › register ›

Home › Plans › Internet & Email Plans

What type of plan are you looking for?

Individual
Family
Packages
T-Mobile @Home
Internet & Email
Prepaid
FlexPay - Monthly
Business

Price Per Month

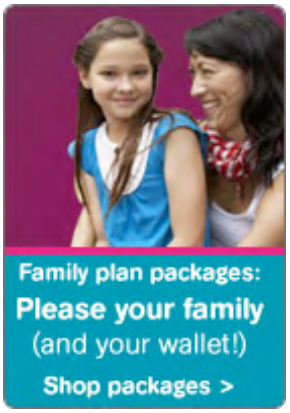
- Under $40
- $41 - $60
- $61 - $80
- $81 - $100
- Above $100

Whenever Minutes

- 300 - 600
- 700 - 1000
- 1500- 2500
- 3000 - 5000
- Unlimited

Plan Type

- MyFaves
- FlexPay



Internet & Email Plans

BlackBerry® Plans
Internet Only
SideKick® Data

compare

BlackBerry® Plans

View Data Plan Terms

BlackBerry Enterprise Server

Integrate up to 10 of your existing e-mail accounts and have your messages pushed right to your BlackBerry handheld. To access corporate e-mail and wirelessly synchronize your e-mail, calendar, and contacts with your desktop e-mail application, your company must have a BlackBerry Enterprise Server.** All plans have unlimited Web browsing, BlackBerry Internet E-mail, and BlackBerry Enterprise Server access.

**Note: BlackBerry Enterprise Server software is an additional charge and must be purchased separately. To find out if your company has a BlackBerry Enterprise Server, ask your IT department.

Plan name	Whenever Minutes	Data per month	E-mail per month	Price per month	
BlackBerry Unlimited w/Enterprise E-mail	None	Unlimited	Unlimited	$39.98	add to cart compare

BlackBerry Internet Service

Choose a data-only plan with unlimited e-mail and Web browsing, or choose one of our bundled Minutes & Mail plans to add tons of Whenever Minutes®. to these great data features.

Plan name	Whenever Minutes	Data per month	E-mail per month	Price per month	
BlackBerry Unlimited	None	Unlimited	Unlimited	$39.99	add to cart compare

CO Rem. Ex. S.00066

PUBLIC VERSION

Internet Only Plans

↑ top

Want Internet access on the go? Get Web browsing everywhere within the T-Mobile network with our Internet-only plans.
View Data Plan Terms

Plan name	Whenever Minutes	Data per month	E-mail per month	Price per month	
T-Mobile Total Internet	None	Unlimited	Unlimited	$39.99	add to cart compare
T-Mobile webConnect Data Plan	None	5 GB	N/A	$59.99	add to cart compare

SideKick® Data Plan

↑ top

Get the most from your Sidekick with unlimited e-mail, AOL® Instant Messenger™, Web browsing, and text messaging. If you want to talk as much as you type, you can purchase a voice plan and add unlimited Sidekick Unlimited service.
View Data Plan Terms

Plan name	Whenever Minutes	Data per month	E-mail per month	Price per month	
Sidekick® Unlimited Web + 300 Messages	None	Unlimited	N/A	$44.99	add to cart compare
Sidekick® Unlimited Web + Unlimited Messages	None	Unlimited	Unlimited	$54.99	add to cart compare

compare

Prices exclusive to T-Mobile.com and valid only with new service activation.

CO Rem. Ex. S.00067

PUBLIC VERSION

The list of plans has been filtered based on the criteria below. To see a full list of plans, click Reset below.

Narrow My List > Nextel Direct Connect® Individual Share Business Mobile Broadband Cards Reset

Create your own stimulus plan

Save up to $360/annually on our Everything Data Family Plan, compared to similar AT&T and Verizon plans.

Calculate savings

Simply Everything℠

Buy with Mobile Broadband and save $9.99/mo.

Everything your phone, PDA or smartphone can do nationwide - unlimited text, surf, email, listen, watch, find and of course, talk - on one simple plan.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Unlimited talk: Unlimited anytime minutes, nationwide long distance and no roaming charges

More about what's included in this plan

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	
Best Value	Unlimited	$99.99	Unlimited	Select

Everything Data

Maximize your phone's potential with unlimited data, Direct Connect and messages.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
450	$69.99	45¢/min	Select
900	$89.99	40¢/min	Select

Everything Messaging

Communicate without saying a word; with this plan, you can text, share and send your heart out.

This plan includes

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
450	$49.99	45¢/min	Select

PUBLIC VERSION

900	$69.99	40¢/min	Select

Talk

Let your voice be heard with these voice-only plans.

This plan includes
Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:
Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends starting at 6PM - $5.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
450	$39.99	45¢/min	Select
900	$59.99	40¢/min	Select

Basic

Get back to the basics with this plan ideal for the occasional caller.

This plan includes
Talk: Night calling and weekends starting at 9 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:
Unlimited Nights & Weekends

- Nights and Weekends - Starting at 9pm - $0.00
- Nights and Weekends - Starting at 7pm - $5.00
- Nights and Weekends - Starting at 6pm - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
200	$29.99	45¢/min	Select

Nextel Direct Connect® Custom Plans

Do you rely on push-to-talk? Try our Nextel Direct Connect Custom Plans. Pick either Unlimited Work Group Communications ($29.99) OR Unlimited Work Group Communications + Web and Navigation ($39.99/$49.99). Then add voice minutes to share.

This plan includes
Unlimited Direct Connect: Direct Connect and Group Connect

Unlimited Messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 9 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:

+ Unlimited Web and Navigation
Surf the Net as easily as you do from your laptop or PC and get voice-guided turn-by-turn driving directions, maps, traffic alerts and on-click rerouting.

Anytime minutes
Available to all Nextel Direct Connect Custom Plan subscribers on the same account.

- 500 Anytime minutes – $30/mo.
- 2,000 Anytime minutes – $100/mo. Buy now and get an extra 500 minutes!

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	
Work Group Communications	0	$29.99	40¢/min	Select
Work Group Communications + Web and Navigation	0	$39.99 / 49.99 Nextel phones / Sprint phones	40¢/min	Select

Features included in all voice plans.

Terms & Conditions

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PUBLIC VERSION

The list of plans has been filtered based on the criteria below. To see a full list of plans, click Reset below.

Narrow My List > Nextel Direct Connect® Individual Share Business Mobile Broadband Cards Reset

Create your own stimulus plan

Save up to $360/annually on our Everything Data Family Plan, compared to similar AT&T and Verizon plans.

Calculate savings

Simply Everything℠

Buy with Mobile Broadband and save $9.99/mo.

Everything your phone, PDA or smartphone can do nationwide - unlimited text, surf, email, listen, watch, find and of course, talk - on one simple plan.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Unlimited talk: Unlimited anytime minutes, nationwide long distance and no roaming charges

More about what's included in this plan

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	
Best Value	Unlimited	$99.99	Unlimited	Select

Simply Everything℠ Family

Buy with Mobile Broadband and save $9.99/mo.

Everything you need for the whole family - unlimited text, surf, email, listen, watch, find and, of course, talk - on one simple plan.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Unlimited talk: Unlimited anytime minutes, nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 $89.99/mo./line

More about what's included in this plan

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
Best Value	Unlimited	$189.98	Unlimited	2	Select

Everything Data

Maximize your phone's potential with unlimited data, Direct Connect and messages.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

PUBLIC VERSION

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
450	$69.99	45¢/min	Select
900	$89.99	40¢/min	Select

Everything Data Family

Have fun with your phones —unlimited email, Web, TV, text and more.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live and NASCAR Sprint Cup Mobile℠

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 are $19.99/mo./line

Featured services for Nextel Direct Connect® capable phones: Direct Connect and Group Connect® $5/mo./line (Look for this on the Services page prior to checkout.)

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends starting at 6PM - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
1500	$129.99	40¢/min	2	Select
3000	$169.99	25¢/min	2	Select

Everything Messaging

Communicate without saying a word; with this plan, you can text, share and send your heart out.

This plan includes

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
450	$49.99	45¢/min	Select
900	$69.99	40¢/min	Select

Everything Messaging Family

Share minutes and text your heart out with unlimited messages.

This plan includes

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 are $9.99/mo./line

Featured services for Nextel Direct Connect® capable phones: Direct Connect and Group Connect® $5/mo./line (Look for this on the Services page prior to checkout.)

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends starting at 6PM - $10.00

PUBLIC VERSION

Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
1500	$99.99	40¢/min	2	Select
3000	$149.99	25¢/min	2	Select

Talk

Let your voice be heard with these voice-only plans.

This plan includes

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends starting at 6PM - $5.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
450	$39.99	45¢/min	Select
900	$59.99	40¢/min	Select

Talk for Family

Let your voice be heard with these voice-only shared plans.

This plan includes

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 are $9.99/mo./line

Featured services for Nextel Direct Connect® capable phones: Direct Connect and Group Connect® $5/mo./line (Look for this on the Services page prior to checkout.)

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends starting at 6PM - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
700	$69.99	45¢/min	2	Select

Basic

Get back to the basics with this plan ideal for the occasional caller.

This plan includes

Talk: Night calling and weekends starting at 9 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Nights and Weekends - Starting at 9pm - $0.00
- Nights and Weekends - Starting at 7pm - $5.00
- Nights and Weekends - Starting at 6pm - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
200	$29.99	45¢/min	Select

Business Essentials with Messaging and Data

Give your employees the tools they need to succeed with 24/7 email access, unlimited texting to always stay connected and driving directions to every important meeting.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance

CO Rem. Ex. S.00072

PUBLIC VERSION

and no roaming charges

Already have this plan? Give additional employees access to plan minutes for $55/mo./line. Call 866-866-7509 to order.

More about what's included in this plan

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
400	$69.99	40¢/min	Select
1000	$89.99	40¢/min	Select
1400	$109.99	40¢/min	Select
2000	$129.99	40¢/min	Select
3000	$179.99	40¢/min	Select
4000	$229.99	40¢/min	Select

Business Essentials

Everything you need to keep your business buzzing with pooled minutes available to all Business Essential plan subscribers on the same account.

This plan includes

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Already have this plan? Give additional employees access to plan minutes from $25/mo./line. Call 866-866-7509 to order.

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends - Starting at 6pm - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	
400	$39.99	40¢/min	Select
1000	$59.99	40¢/min	Select
1400	$79.99	40¢/min	Select
2000	$99.99	40¢/min	Select
3000	$149.99	40¢/min	Select
4000	$199.99	40¢/min	Select

Nextel Direct Connect® Custom Plans

Do you rely on push-to-talk? Try our Nextel Direct Connect Custom Plans. Pick either Unlimited Work Group Communications ($29.99) OR Unlimited Work Group Communications + Web and Navigation ($39.99/$49.99). Then add voice minutes to share.

This plan includes

Unlimited Direct Connect: Direct Connect and Group Connect

Unlimited Messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 9 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:

+ Unlimited Web and Navigation
Surf the Net as easily as you do from your laptop or PC and get voice-guided turn-by-turn driving directions, maps, traffic alerts and on-click rerouting.

Anytime minutes
Available to all Nextel Direct Connect Custom Plan subscribers on the same account.

- 500 Anytime minutes – $30/mo.
- 2,000 Anytime minutes – $100/mo. Buy now and get an extra 500 minutes!

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	
Work Group Communications	0	$29.99	40¢/min	Select
Work Group Communications + Web and Navigation	0	$39.99 / 49.99 Nextel phones / Sprint phones	40¢/min	Select

Features included in all voice plans.

CO Rem. Ex. S.00073

PUBLIC VERSION

The list of plans has been filtered based on the criteria below. To see a full list of plans, click Reset below.

Narrow My List > Nextel Direct Connect® Individual Share Business Mobile Broadband Cards Reset

Create your own stimulus plan

Save up to $360/annually on our Everything Data Family Plan, compared to similar AT&T and Verizon plans.

Calculate savings

Simply Everything℠ Family

Buy with Mobile Broadband and save $9.99/mo.

Everything you need for the whole family - unlimited text, surf, email, listen, watch, find and, of course, talk - on one simple plan.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live, NASCAR Sprint Cup Mobile℠

Unlimited Direct Connect: Direct Connect and Group Connect (for capable phones)

Unlimited messaging: Text, pictures and video

Unlimited talk: Unlimited anytime minutes, nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 $89.99/mo./line

More about what's included in this plan

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
Best Value	Unlimited	$189.98	Unlimited	2	Select

Everything Data Family

Have fun with your phones —unlimited email, Web, TV, text and more.

This plan includes

Unlimited data: Web surfing, email, BlackBerry Internet Services (BIS), GPS Navigation, Music Premier, TV Premier, NFL Mobile Live and NASCAR Sprint Cup Mobile℠

Unlimited messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 are $19.99/mo./line

Featured services for Nextel Direct Connect® capable phones: Direct Connect and Group Connect® $5/mo./line (Look for this on the Services page prior to checkout.)

More about what's included in this plan

Additional plan options:

Unlimited Nights & Weekends

- Unlimited Nights & Weekends starting at 7pm! - $0.00
- Nights and Weekends starting at 6PM - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
1500	$129.99	40¢/min	2	Select
3000	$169.99	25¢/min	2	Select

Everything Messaging Family

Share minutes and text your heart out with unlimited messages.

This plan includes

Unlimited messaging: Text, pictures and video

Additional plan options:

Unlimited Nights & Weekends

PUBLIC VERSION

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 are $9.99/mo./line

Featured services for Nextel Direct Connect® capable phones: Direct Connect and Group Connect® $5/mo./line (Look for this on the Services page prior to checkout.)

More about what's included in this plan

Unlimited Nights & Weekends starting at 7pm! - $0.00
Nights and Weekends starting at 6PM - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
1500	$99.99	40¢/min	2	Select
3000	$149.99	25¢/min	2	Select

Talk for Family

Let your voice be heard with these voice-only shared plans.

This plan includes

Talk: Unlimited mobile to mobile, night calling and weekends starting at 7 p.m., nationwide long distance and no roaming charges

Lines 1-2 included. Lines 3-5 are $9.99/mo./line

Featured services for Nextel Direct Connect® capable phones: Direct Connect and Group Connect® $5/mo./line (Look for this on the Services page prior to checkout.)

More about what's included in this plan

Additional plan options:
Unlimited Nights & Weekends

Unlimited Nights & Weekends starting at 7pm! - $0.00
Nights and Weekends starting at 6PM - $10.00

Anytime Minutes	Monthly Price	Additional Anytime Minutes	Lines	
700	$69.99	45¢/min	2	Select

Nextel Direct Connect® Custom Plans

Do you rely on push-to-talk? Try our Nextel Direct Connect Custom Plans. Pick either Unlimited Work Group Communications ($29.99) OR Unlimited Work Group Communications + Web and Navigation ($39.99/$49.99). Then add voice minutes to share.

This plan includes

Unlimited Direct Connect: Direct Connect and Group Connect

Unlimited Messaging: Text, pictures and video

Talk: Unlimited mobile to mobile, night calling and weekends starting at 9 p.m., nationwide long distance and no roaming charges

More about what's included in this plan

Additional plan options:

+ Unlimited Web and Navigation
Surf the Net as easily as you do from your laptop or PC and get voice-guided turn-by-turn driving directions, maps, traffic alerts and on-click rerouting.

Anytime minutes
Available to all Nextel Direct Connect Custom Plan subscribers on the same account.

- 500 Anytime minutes – $30/mo.
- 2,000 Anytime minutes – $100/mo. Buy now and get an extra 500 minutes!

	Anytime Minutes	Monthly Price	Additional Anytime Minutes	
Work Group Communications	0	$29.99	40¢/min	Select
Work Group Communications + Web and Navigation	0	$39.99 / 49.99 Nextel phones / Sprint phones	40¢/min	Select

Features included in all voice plans.

Terms & Conditions

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CO Rem. Ex. S.00075

PUBLIC VERSION

The list of plans has been filtered based on the criteria below. To see a full list of plans, click Reset below.

Narrow My List > Nextel Direct Connect® Individual Share Business Mobile Broadband Cards Reset

Create your own stimulus plan

Save up to $360/annually on our Everything Data Family Plan, compared to similar AT&T and Verizon plans.

Calculate savings

Mobile Broadband Connection Plan - 3G

Buy with Simply Everything℠ and save $9.99/mo.

With this plan and your Mobile Broadband device, you have instant Internet access wherever you go on the Sprint Mobile Broadband Network.

This plan includes

5 GB/mo. in total or 300 MB/mo. while off-network roaming. (1024 kb=1MB. 1024 MB=1 GB)

Additional monthly usage over 5 GB costs 5¢/MB. You may not use more than 300 MB/mo. while off-network roaming. You can check your usage online anytime. Log into www.sprint.com/mysprint and click on usage details.

International data roaming may incur additional charges.

Sprint reserves the right to limit throughput speeds or amount of data transferred. See what you can do with 5GB or 300MB a month.

Learn more about what's included in this plan

	Approximate file size*	How many of these can I send or receive in a month (300MB) while roaming?*	How many of these can I send or receive in a month (5GB) while on the Sprint network?*
Email (Text only, no images)	3 KB	100,000	1,700,000
Photo (Low resolution image)	500 KB	600	10,000
Music (3 minute song)	3 MB	98	1,667
Movie (full length feature)	700 MB	0	7

*These file sizes and downloads are estimated and will vary widely depending on lots of different factors. So, you shouldn't really use this information to decide how many videos or songs you can download. To check your current data usage, log on to My Sprint.

Anytime Minutes	Monthly Price	Monthly Usage	
0	$59.99	5GB	Select

Mobile Broadband Connection Plan - 3G/4G

Get the best of both worlds: Take advantage of turbo-charged unlimited 4G Internet access in the Baltimore area and 5GB of 3G coverage nationwide. Important coverage and plan information.

This plan includes

An unlimited 4G connection in Baltimore that can keep up with you. Download mammoth files, watch streaming videos and video conferencing without the lag. More coverage locations coming soon!

3G coverage nationwide: 5GB/mo. in total or 300 MB/mo. while off-network roaming. Additional monthly usage over 5GB costs 5¢/MB. You may not use more than 300 MB/mo. while off-network roaming. You can check your usage online anytime. Log into www.sprint.com/mysprint and click on usage details.

International data roaming may incur additional charges.

Sprint reserves the right to limit throughput speeds or amount of data transferred.

Anytime Minutes	Monthly Price	Monthly Usage	
Unlimited	$79.99	4G: Unlimited/3G: 5GB	Select

Features included in all voice plans.

Terms & Conditions

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Residential
Business
Wireless

Individual Plans

OTHER PLANS

Family Plans

EXISTING CUSTOMERS

Sign in to My Verizon

Change Calling Plan

Add a Line

Plans

	Basic Plans	Select Plans	Connect Plans	Premium Plans*
Monthly Access	Starting at **$39.99**	Starting at **$59.99**	Starting at **$69.99**	Starting at **$79.99**
Monthly Anytime Minutes	Starting at **450**	Starting at **450**	Starting at **450**	Starting at **450**
Friends & Family	**5 numbers** included on plans with 900 Anytime Minutes or more	**5 numbers** included on plans with 900 Anytime Minutes or more	**5 numbers** included on plans with 900 Anytime Minutes or more	**5 numbers** included on plans with 900 Anytime Minutes or more
Unlimited Mobile to Mobile Minutes	✓	✓	✓	✓

PUBLIC VERSION

Unlimited Night & Weekend Minutes	✓	✓	✓	✓
Domestic Long Distance Included	✓	✓	✓	✓
Web Browsing	**$1.99/MB**	**$1.99/MB**	**Unlimited**	**Unlimited**
Text Messaging	**$0.20/Message**	**Unlimited**	**Unlimited**	**Unlimited**
Picture & Video Messaging	**$0.25/Message**	**Unlimited**	**Unlimited**	**Unlimited**
Mobile Email	—	—	✓	✓
V CAST VPak	—	—	—	✓
VZ Navigator	—	—	—	✓

*Available on select phones only

Other Individual Plans

Messaging only

Unlimited messaging without voice minutes for one low monthly price.
Shop Now

65 Plus

A plan designed to meet the needs of customers 65 and older.
Shop Now

Push To Talk Only

Unlimited 1-to-1 and Group Push To Talk calling.
Shop Now

Nationwide Plus Canada

The perfect plan for frequent travelers to Canada.
Shop Now

Check out all of your options

View all calling plans
Shop Now

Residential
Business
Wireless

Family SharePlans®

PlanBuilder℠ New

Build the Family SharePlan that'll keep everybody happy. Including your wallet.

Start Building!

Introducing
Friends & Family.®

Introducing Friends & Family. Save minutes and money. Unlimited calling to 10 out-of-network numbers, even landlines, on any Nationwide Family SharePlan with 1,400 Anytime Minutes or more. Plus, as always, get America's Largest Mobile-to-Mobile Calling Family. 80 million strong. All at no extra cost.

The best value in wireless is only on the network.

Plans

	Basic Plans	Select Plans	Connect Plans	Premium Plans*
Monthly Access	Starting at **$69.99 / 2 lines**	Starting at **$99.99 / 2 lines**	Starting at **$119.99 / 2 lines**	Starting at **$139.99 / 2 lines**
Monthly Anytime Minutes	Starting at **700**	Starting at **700**	Starting at **700**	Starting at **700**
Friends & Family	**10 numbers** included on plans with 1400 Anytime Minutes or more	**10 numbers** included on plans with 1400 Anytime Minutes or more	**10 numbers** included on plans with 1400 Anytime Minutes or more	**10 numbers** included on plans with 1400 Anytime Minutes or more
Unlimited Mobile to Mobile Minutes	✓	✓	✓	✓
Unlimited Night &	✓	✓	✓	✓

Weekend Minutes	✓	✓	✓	✓
Domestic Long Distance Included	✓	✓	✓	✓
Web Browsing	**$1.99/MB**	**$1.99/MB**	**Unlimited**	**Unlimited**
Text Messaging	**$0.20/Message**	**Unlimited**	**Unlimited**	**Unlimited**
Picture & Video Messaging	**$0.25/Message**	**Unlimited**	**Unlimited**	**Unlimited**
Mobile Email	—	—	✓	✓
V CAST VPak	—	—	—	✓
VZ Navigator	—	—	—	✓

*Available on select phones only

Other Family Plans

65 Plus

A plan designed to meet the needs of customers 65 and older.
Shop Now

Nationwide Plus Canada

The perfect plan for frequent travelers to Canada.
Shop Now

Check out all of your options

View all calling plans
Shop Now

PUBLIC VERSION

Residential
Business
Wireless

VERIZON WIRELESS PREPAID

- **Pay only on the days you use it.**
  Didn't use it on Monday, then don't pay anything on Monday.
- **Variety of new plans available to fit your lifestyle and budget.**
- **Unlimited Mobile to Mobile Calling with over 80 million Verizon Wireless customers.**
- **No credit checks, long-term contracts or deposits.**
- **Great features like VZ Navigator and V CAST Music with Rhapsody.**

Prepaid Coverage Maps:
National map
Regional map

Included Features:
Get the Details

Select a Plan:	**Unlimited Talk**	**Plus**	**Core**	**Basic**
Daily Access (only on days used)	**$3.99**	**$1.99**	**$0.99**	**$0.00**
Mobile to Mobile Calling (with Verizon Wireless customers)	**Unlimited**	**Unlimited**	**Unlimited**	**25¢Min**
Night & Weekend Minutes (per minute)	**Unlimited**	**Unlimited**	**10¢**	
Each Additional Minute (For all other calls)	**Unlimited**	**5¢**	**10¢**	**20¢Text Message**
Text Messaging Rates (per message sent & received)	**1¢**	**5¢**	**10¢**	

Night Minutes: 9.01p.m - 5:59am; Weekend Minutes: 12:00am Saturday - 11:59p.m. Sunday

View International Calling and Text Messaging Rates and Locations

Refill Expiration (once applied to the account)

- $15-$29.99 expires in 30 days
- $30-$74.99 expires in 90 days
- $75-$99.99 expires in 180 days
- $100 or more expires in ONE YEAR!

Brochures: English | Spanish

ADDITIONAL CALLING PLAN INFORMATION

- **NEW! Messaging Bundles Available**
  - **$20/month for Unlimited Messaging to anyone on any network in the U.S.***
  - **$10/month for Unlimited Mobile to Mobile Messaging with Verizon Wireless customers PLUS 250 additional messages***

- V CAST Music with Rhapsody - 99¢ / song via PC; $1.99 / song via phone; 99¢ download fee**
- Ringback Tones - 99¢ per month & $1.99 per Ringback Tone/Year
- Picture and Video Messaging - 25¢ per message
- Mobile Web - 99¢ per day of use (24-hour period)
- Domestic Long Distance Included (airtime charges apply)
- Domestic Roaming Rate is 20¢ Per Minute
- International Text Messaging - 25¢ per message sent, messages received are same as calling plan
- International Roaming – Voice Calls
  – 69¢/min in Puerto Rico, Canada & US Virgin Islands
  – 99¢/min in Mexico
  – $1.99/min in Bermuda
- International Roaming – Text Messaging
  – 50¢ per message sent
  – 5¢ per mesage received
- 411 Search - $1.49 per call plus airtime
- Up to $25 activation fee may apply.

* Additional and Unlimited Messages apply when sending and receiving: (i) Instant Messages, Text Alerts and Picture and Video Messaging Portal Messages; (ii) Messages with non-Verizon Wireless customers in the United States or participating networks in Canada, Mexico and Puerto Rico; or (iii) via email. Unlimited Messages also include Mobile to Mobile Messages with Verizon Wireless Customers. For Additional Messages, overage Messaging rates default to those of your Calling Plan. Premium Messaging programs and International Messaging not included.

** A 99¢ download fee applies in addition to song price on 1st purchase in any 24-hour period - (phone purchases only). For songs purchased from the phone, a second copy of the song is available for download from the V CAST Music with Rhapsody Online Store account on your PC. Browsing, previewing, and downloading music on your phone will not use airtime. See Prepaid Customer Agreement brochure for complete terms and conditions.

Mobile to Mobile, Night Minutes, Weekend Minutes and Per-Minute Rate are for use from within the Verizon Wireless Prepaid Rate and Coverage Area. Daily Access will be charged and deducted from your account only on days you make or receive calls and is valid until 11:59 p.m. Daily Access of $0.99, $1.99 or $2.99, calls rated at per minute rate and other charges for available services on your prepaid plan may deplete balance prior to its expiration. You will not be able to make or receive voice calls if you do not have the amount required for your daily access. Your account balance will expire at 12:01 a.m. on the day stated at the time of replenishment. To carry your balance forward, simply refill your account before your expiration date. If balance expires, unused portion will be forfeited. Verizon Wireless will suspend your service when your account reaches $0 or your account reaches the expiration date. Unlimited Mobile to Mobile, Night and Weekend Minutes are not available when your account has been suspended. Limit of 2 calling plan changes in a 30-day period.

Important Information:
All terms, conditions and obligations of the Verizon Wireless Prepaid Customer Agreement and Calling Plan, which cover all the details of your prepaid service, shall govern the terms of your service. Please read and understand this material before activating or using your phone. Verizon Wireless calling plans, rate areas, agreement provisions, business practices, procedures and policies are subject to change as specified in the Verizon Wireless Prepaid Customer Agreement. Our liability is significantly limited. Customers must replenish their account by providing Verizon Wireless with another payment. Any balance remaining at expiration will be removed from the account. Your wireless number is subject to termination after the expiration period, at which time up to a $35 account activation fee may apply to re-establish service. Existing Verizon Wireless prepaid customers will forfeit any unused bonus minutes in their account when changing to a prepaid Calling Plan.

You will forfeit the money in your account if you activated service without a Refill Card and did not make a call within 60 days. You must initialize the account. If activating the account with a Refill Card, the card is not valid unless initialized (using the PIN) by the date marked on the back of the card.

Toll and airtime free numbers are **911, #PAY (#729)** and ***611**. If a charge depends on an amount of time used, we'll round up any fraction of a minute to the next full minute. Time starts when you first press **SEND** or the call connects to a network on outgoing calls and when the call connects to a network (which may be before it rings) on incoming calls. Time may end several seconds after you press **END** or the call otherwise disconnects. For calls that are made on our network, we only bill for calls that connect (which includes calls answered by machines). Charge per call for 411 Search may vary when not in the Verizon Wireless Prepaid Rate and Coverage Area.

Service availability dependent on phone model. Prepaid pricing not available with analog-only phones. Some Verizon Wireless services and features require a CDMA tri-mode or All-Digital phone with Verizon Wireless software. Included features and services may not be available when outside the Prepaid Rate and Coverage Area. V CAST (Video & Mobile TV), New Every Two®, Extended Warranty, Wireless Phone Protection, Total Equipment Coverage, Roadside Assistance, Detailed Billing and Enhanced Voice Mail are not available on the Verizon Wireless Prepaid Calling plans. Please see the Verizon Wireless Prepaid brochures for full details of the prepaid service.

Verizon Wireless Mobile to Mobile Calling
If Caller ID is not present or Caller ID Block is initiated, Mobile to Mobile does not apply to incoming calls and will apply to outgoing calls only. Mobile to Mobile is not available to customers whose wireless exchange restricts the delivery of Caller ID or with fixed wireless devices with usage substantially from a single cell site. Mobile to Mobile does not apply if call forwarding or no answer/busy transfer features are activated or to data usage, calls to check your voice mail and calls to Verizon Wireless customers using Airfone Service or any of the VZGlobal services.

Get It Now
Use of Get It Now is subject to the Get It Now License and User Agreements. An approved Verizon Wireless Prepaid Get It Now-capable phone and a connection in the Prepaid All-Digital Rate and Coverage Area is required. Not all applications available with Verizon Wireless Prepaid Calling Plans. Additional fees apply. See www.verizonwireless.com/getitnow for more information. For Mobile Web, the services are charged at 99¢ per day only on the days it is used. You will have unlimited use of the services for a 24-hour period. Coverage limitations in maps at www.verizonwireless.com/coveragelocator

Refunds
REFUNDS WILL BE GRANTED WITHIN 30 DAYS OF THE ORIGINAL DATE OF PURCHASE WITH THE ORIGINAL SALES RECEIPT. AT THE TIME OF THE RETURN, THE CUSTOMER WILL RECEIVE A FULL REFUND FOR THE AMOUNT OF THE EQUIPMENT ONLY.

Connecticut Customers: If you have any questions about your bill or concerns about your service, please call Customer Care at: 1-888-294-6804 or dial *611 from your wireless phone. If you are a Connecticut customer and we cannot resolve your issue, you have the option of contacting the Department of Public Utility Control (DPUC): Online: www.state.ct.us/dpuc Phone: 866-381-2355; Mail: Connecticut DPUC, 10 Franklin Square, New Britain, CT 06051.

Last Update 2/16/09

PUBLIC VERSION

Select a Plan

Shopping Assistant

Email | Email & Messaging

PDA/Smartphone Nationwide Email

A bundled package with voice and wireless data for quick and easy remote access to email and attachments. Introducing Friends & Family®. Unlimited calling to and from any 5 numbers on any network in America. Learn More

- Data usage from within the National Enhanced Services and the Extended National Enhanced Services Rate and Coverage Areas
- Data Access for Email
- Unlimited Calling to all Verizon Wireless Customers
- Unlimited Night & Weekend Minutes
- No Domestic Long Distance Charges

View All Included Features

Compare All Individual Plans

Monthly Anytime Minutes		Monthly Access	Per-Minute Rate After Allowance
450 Minutes		$79.99	$0.45
900 Minutes	with unlimited calling to and from 5 Friends & Family numbers	$99.99	$0.40
1350 Minutes	with unlimited calling to and from 5 Friends & Family numbers	$109.99	$0.35
Unlimited Minutes		$129.99	$0.00

Calling Plan Information

Important Calling Plan Information
Anytime Minutes, Mobile to Mobile, Night & Weekend Minutes and Per–Minute Rate are for use from within the Nationwide Rate and Coverage Area. Data usage is for use within the National Enhanced Services Rate and Coverage Area.

- Unlimited Domestic Long Distance. (Airtime applies.)

PUBLIC VERSION

Residential
Business
Wireless

Select a Plan

Shopping Assistant

Email | Email & Messaging

PDA/Smartphone Nationwide Email & Messaging

A bundled package with voice and wireless data for quick and easy remote access to email and attachments. Plus Unlimited Messaging with anyone in the U.S. on any network. Introducing Friends & Family®. Unlimited calling to and from any 5 numbers on any network in America.
Learn More

- Unlimited Text, Picture, Video & Instant Messaging
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Compare All Individual Plans

Monthly Anytime Minutes	Monthly Access	Per-Minute Rate After Allowance
450 Minutes	**$99.99**	$0.45
900 Minutes with unlimited calling to and from 5 **Friends & Family numbers**	**$119.99**	$0.40
1350 Minutes with unlimited calling to and from 5 **Friends & Family numbers**	**$129.99**	$0.35
Unlimited Minutes	**$149.99**	$0.00

Calling Plan Information

Important Calling Plan Information
Anytime Minutes, Mobile to Mobile, Night & Weekend Minutes and Per–Minute Rate are for use from within the Nationwide Rate and Coverage Area. Data usage is for use within the National Enhanced Services Rate and Coverage Area.

PUBLIC VERSION

Select a Plan

Shopping Assistant

PDA & Smartphone Email

PDA/Smartphone

- Securely send and receive emails, plus get real-time calendar, contact and task updates from your Smartphone.
- Unlimited Data Usage within NationalAccess or BroadbandAccess service area

View All Included Features

Monthly Allowance	Monthly Access	Per-Minute Rate
Unlimited Data Usage	$49.99	$0.25

Data usage is within NationalAccess or BroadbandAccess Service Area. Voice usage in the Nationwide Rate and Coverage Area is $0.25 per minute.

Calling Plan Information

Additional Calling Plan Information:

International Long Distance
Rates vary by market. See www.verizonwireless.com/international for availability and rates.

411 Connect®
$1.49 per call plus airtime

Required Equipment
Verizon Wireless BlackBerry Handheld

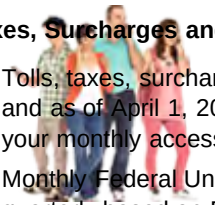
Required Contract Terms, Activation Fees and Early Termination Fee

- Month–to–month, one– or two–year minimum term required per line — $35 activation fee per line, except FamilyShare additional lines, $25 for 2-year agreements.
- Activation fees may vary or be waived for business customers that have a Major Account Agreement with Verizon Wireless.
- Early Termination Fee — $175 per line for one– or two–year minimum terms.

Taxes, Surcharges and Fees

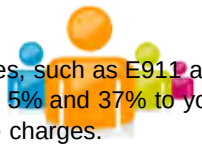
- Tolls, taxes, surcharges and other fees, such as E911 and gross receipt charges, vary by market and as of April 1, 2009, add between 5% and 37% to your monthly bill and are in addition to your monthly access fees and airtime charges.
- Monthly Federal Universal Service Charge, interstate & international telecom charges (varies quarterly based on FCC rate) is 12.9% per line.
- The Verizon Wireless monthly Regulatory Charge is 7¢ per line.

Friends & Family®



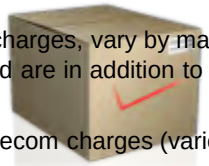
Unlimited calling to the numbers you call most.

PlanBuilder℠



Build the family share plan that's right for everybody happy, including your wallet.

Free Activation & Free Overnight Shipping



Save the activation fee when

PUBLIC VERSION

Residential
Business
Wireless

Select a Plan

Shopping Assistant

Email | Email & Messaging

BlackBerry® Nationwide Email

A bundled package with voice and wireless data for quick and easy remote access to email over your BlackBerry handheld. Introducing Friends & Family®. Unlimited calling to and from any 5 numbers on any network in America. Learn More

- Data usage from within the National Enhanced Services and the Extended National Enhanced Services Rate and Coverage Areas
- Data Access for Email
- Unlimited Calling to all Verizon Wireless Customers
- Unlimited Night & Weekend Minutes
- No Domestic Long Distance Charges

View All Included Features

Compare All Individual Plans

Monthly Anytime Minutes	Monthly Access	Per-Minute Rate After Allowance
450 Minutes	**$79.99**	$0.45
900 Minutes with unlimited calling to and from 5 **Friends & Family numbers**	**$99.99**	$0.40
1350 Minutes with unlimited calling to and from 5 **Friends & Family numbers**	**$109.99**	$0.35
Unlimited Minutes	**$129.99**	$0.00

Calling Plan Information

Important Calling Plan Information
Anytime Minutes, Mobile to Mobile, Night & Weekend Minutes and Per–Minute Rate are for use from within the Nationwide Rate and Coverage Area. Data usage is for use within the National Enhanced Services Rate and Coverage Area.

- Unlimited Domestic Long Distance. (Airtime applies.)

PUBLIC VERSION

Select a Plan

Shopping Assistant

Email | Email & Messaging

BlackBerry® Nationwide Email & Messaging

A bundled package with voice and wireless data for quick and easy remote access to email over your BlackBerry handheld. Plus Unlimited Messaging with anyone in the U.S. on any network. Introducing Friends & Family®. Unlimited calling to and from any 5 numbers on any network in America. Learn More

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Calling Plan Information

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PUBLIC VERSION

Select a Plan

Shopping Assistant

Blackberry Email

BlackBerry® Solution

- Quick and easy access to email, contacts, calendar and task list while on the go. BlackBerry device required.
- Unlimited Data Usage within NationalAccess or BroadbandAccess service area

View All Included Features

Monthly Allowance	Monthly Access	Per-Minute Rate
Unlimited Data Usage	$49.99	$0.25

Data usage is within NationalAccess or BroadbandAccess Service Area. Voice usage in the Nationwide Rate and Coverage Area is $0.25 per minute.

Calling Plan Information

Additional Calling Plan Information:

International Long Distance
Rates vary by market. See www.verizonwireless.com/international for availability and rates.

411 Connect®
$1.49 per call plus airtime

Required Equipment
Verizon Wireless BlackBerry Handheld

Required Contract Terms, Activation Fees and Early Termination Fee

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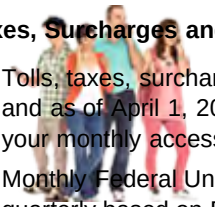
Friends & Family®



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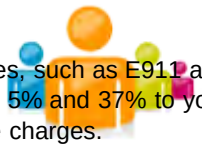

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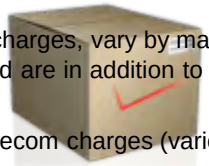

Save the activation fee when

PUBLIC VERSION

Residential
Business
Wireless

Select a Plan

Shopping Assistant

Email | Email & Messaging

BlackBerry® Nationwide Email & Messaging

A bundled package with voice and wireless data for quick and easy remote access to email over your BlackBerry handheld. Plus Unlimited Messaging with anyone in the U.S. on any network. Introducing Friends & Family®. Unlimited calling to and from any 5 numbers on any network in America. Learn More

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- Data usage from within the National Enhanced Services and the Extended National Enhanced Services Rate and Coverage Areas
- Data Access for Email
- Unlimited Calling to all Verizon Wireless Customers
- Unlimited Night & Weekend Minutes
- No Domestic Long Distance Charges

View All Included Features

Compare All Individual Plans

Monthly Anytime Minutes	Monthly Access	Per-Minute Rate After Allowance
450 Minutes	**$99.99**	$0.45
900 Minutes with unlimited calling to and from 5 **Friends & Family numbers**	**$119.99**	$0.40
1350 Minutes with unlimited calling to and from 5 **Friends & Family numbers**	**$129.99**	$0.35
Unlimited Minutes	**$149.99**	$0.00

Calling Plan Information

Important Calling Plan Information
Anytime Minutes, Mobile to Mobile, Night & Weekend Minutes and Per–Minute Rate are for use from within the Nationwide Rate and Coverage Area. Data usage is for use within the National Enhanced Services Rate and Coverage Area.

PUBLIC VERSION

Select a Plan

Shopping Assistant

Email | Email & Messaging

BlackBerry® Nationwide Email

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Calling Plan Information

Important Calling Plan Information
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- Unlimited Domestic Long Distance. (Airtime applies.)

PUBLIC VERSION

Select a Plan

Shopping Assistant

High Speed Access

Mobile Broadband

Stay productive, responsive and connected while on the go, right from your laptop at average download speeds of 600 Kbps – 1.4 Mbps and at average upload speeds of 500 Kbps – 800 Kbps.*

Enjoy access for Internet browsing, email and intranet access.

Mobile Broadband Data Usage:
Choose the Mobile Broadband Plan That Works Best For You

View All Included Features

Monthly Allowance	Monthly Access	Per MB Rate After Allowance
250 MB	$39.99	$0.10
5GB (5,120 MB)	$59.99	$0.05

*Mobile Broadband speed claim based on our network tests with 5 MB FTP data files without compression. Actual speeds and coverage may vary. Other data services (Quick 2 Net^{sm} dial–up connections) at $0.25 per minute.

Calling Plan Information

Additional Plan Information:
Required Equipment
National Access or Mobile Broadband–capable device

Required Minimum Term, Activation Fees, and Early Termination Fee

- Month–to–month, one– or two–year minimum term required per line.
- Activation Fee: $35 per line.
- Activation fees may vary or be waived for business customers that have a Major Account Agreement with Verizon Wireless.
- Early Termination: Up to $175 fee per line for one– or two–year minimum terms.

- In the Canadian Broadband and Canadian Enhanced Services Rate and Coverage Areas, usage will be charged at a rate of $0.002 per KB or $2.05 per MB.
- In the Mexican Enhanced Services Rate and Coverage Area, usage will be charged at a rate of $0.005 per KB or $5.12 per MB.
- In the Bermuda, China, Dominican Republic, India and Israel Enhanced Services Rate and

Friends & Family® | Plan Builder℠ | Free Activation & Free

Individual Plans
Family Plans
Prepaid Plans
Pick Your Plan
Pay As You Go
Data Plans
BlackBerry Plans
PDA/Smartphone Plans
Laptop Connect Plans

Individual Cell Phone Plans

To order by phone, call 1-888-333-6651 (special online pricing and some devices may not be available)

AT&T, the nation's fastest 3G Network, offers a variety of individual cell phone plans where you'll enjoy:

- **Unlimited** calling to other AT&T wireless customers with **Mobile to Mobile**
- No **roaming or long distance charges**
- Saving unused minutes with **Rollover®**
- Unlimited calling on **Nights and Weekends**

On the road again? Check out our national coverage in areas you plan to visit.
View national map

Nation Plans

Minutes	Monthly Cost	Rollover®	Unlimited Nights/Weekends*	Unlimited Mobile to Mobile	Additional Details
450	$39.99	✔	Includes 5000	✔	View Details
900	$59.99	✔	✔	✔	View Details
1350	$79.99	✔	✔	✔	View Details
Unlimited	$99.99		✔	✔	View Details

Senior Plan - Available to customers 65 and older.

Minutes	Monthly Cost	Rollover®	Unlimited Nights/Weekends*	Unlimited Mobile to Mobile	Additional Details	
200	$29.99		Includes 500	✔	View Details	Must be 65 or older Verified at checkout

*Night and Weekend minutes will be used before Mobile to Mobile minutes. Unlimited weekday minutes from 9pm to 6am and unlimited minutes on weekends.

Other Monthly Charges | Plan Terms | Online Pricing | Return Policy
Additional Messaging & Data Charges

Service provided by AT&T Mobility.

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YELLOWPAGES.COM™ Digital White & Yellow Pages
USA Proud Sponsor of the U.S. Olympic Team

FamilyTalk Cell Phone Plans

To order by phone, call 1-888-333-6651 (special online pricing and some devices may not be available)

FamilyTalk plans offer a range of cell phone plan options that let you share minutes and save. Use your minutes between two lines or add additional lines for one low price and enjoy:

- Unlimited calling on **Nights and Weekends** for all lines
- Unlimited calling to other AT&T wireless customers with **Mobile to Mobile**
- No **roaming or long distance charges**
- Saving unused minutes with **Rollover®**

On the road again? Check out our national coverage in areas you plan to visit.
View national map

Nation Plans

Shared Minutes	Monthly Cost (First 2 lines)	Cost per Addl. Line	Rollover®	Unlimited Nights/Weekends*	Unlimited Mobile to Mobile	Additional Details
550 (Max 3 lines)	$59.99	9.99	✔	✔	✔	View Details
700 (Max 5 lines)	$69.99	9.99	✔	✔	✔	View Details
1400 (Max 5 lines)	$89.99	9.99	✔	✔	✔	View Details
2100 (Max 5 lines)	$109.99	9.99	✔	✔	✔	View Details
3000 (Max 5 lines)	$149.99	9.99	✔	✔	✔	View Details
4000 (Max 5 lines)	$199.99	9.99	✔	✔	✔	View Details
Unlimited (Max 5 lines)	$199.99	99.99		✔	✔	View Details

*Night and Weekend minutes will be used before Mobile to Mobile minutes. Unlimited weekday minutes from 9pm to 6am and unlimited minutes on weekends.

Other Monthly Charges | Plan Terms | Online Pricing | Return Policy
Additional Messaging & Data Charges

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Prepaid Cell Phone Plans

No Annual Contract - No Credit Check - No Deposit - No Surprise Bills

The benefits of wireless – without the commitment

Pay As You Go
Prepay whenever you want

Add Pay As You Go Plan

Key Benefits:

- $15 airtime included on select phones
- Unlimited calling to anyone nationwide on a select plan
  - Pay only on days used
- Prepaid without compromise – on the network you can trust
- Unlimited Text Messaging option available
- Unlimited Night & Weekend Minutes option available
- Your choice of three rate plans options
- Pay As You Go Rewards Program – get a bonus for every $100 you spend refilling your account

choose between

Both Options Feature:

Unlimited Talk to AT&T's wireless customers (on most plans)	✓
Rollover® Balance™ allows you to carry balance over month to month	✓
No domestic roaming or long distance fees	✓
Easily manage your account online	✓
Cancel anytime	✓

Pick Your Plan
Prepay once a month

Add Pick Your Plan

Key Benefits:

- Choose one of four rate plans that best meets your needs
- Night & Weekend Minutes included in most plans
- AutoPay for your rate plan once a month
- Pay with your credit card, debit card or checking account

*Daily access fee of $1.00 for the Pay As You Go Unlimited Talk plan is assessed each day you use your phone for a voice call and is debited from your account balance the day after you use your phone.
**Not available on the 25¢/min Pay As You Go plan.
*** No roaming or long distance fees across our national service area.

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GoPhone® Pay As You Go

To order by phone, call 1-888-4GOPHONE (special online pricing may not be available)

View national map

All the benefits of wireless, without the surprises. This prepaid cell phone plan allows you to simply pay in advance for what you need. No long-term contracts, credit checks or deposits.

Highlights
• $15 airtime included on select phones
• New! Unlimited calling to anyone nationwide on a select plan
  • Pay only on days used
• Prepaid without compromise on the network you can trust
• No annual contract. No credit check.
• Refill balance 24/7 with prepaid cards, online, or dial 611
• Track your usage – you'll receive a text message with your updated balance after each call

AT&T Advantages
• Rollover® Balance™ lets you carry over your unused account balance when you refill before your balance expires, up to the account maximum.
• No long distance or roaming fees across our national service area.
• UNLIMITED Text Messaging and Nights & Weekends with Data options on select plans. View Pay As You Go feature package details.

Reward Yourself. Pay As You Go Rewards gives you a bonus for every $100 you spend refilling your account. View Pay As You Go Rewards.

Name of Plan	Anytime Minutes	Daily Access Fee*	Mobile to Mobile Minutes	Nationwide Long Distance	Rollover® Balance	Additional Features
Unlimited Calling Plan	$.00 per minute	$3.00 per day, ONLY on days you use your phone	Unlimited	Included	Included	View Details
Mobile to Mobile Plan	$.10 per minute	$1.00 per day, ONLY on days you use your phone	Unlimited	Included	Included	View Details
Simple Rate Plan	$.25 per minute	N/A		Included	Included	View Details

Plan Terms

In certain areas, **taxes or fees relating to E911** are debited from your account balance monthly.

***Daily Access Fee:**
Daily access fee is assessed each day you use your phone for a voice call and is normally debited from your account balance on the first call of the day.

Add Funds to Your Account
For your convenience 24/7, you can add funds to your account in a variety of ways:
- Buy prepaid refill cards at AT&T wireless stores
- Go to att.com/mygophone
- Call 611 from your wireless phone
- Purchase Pay As You Go refill cards at any one of more than 200,000 authorized retail locations

***888* Star Refill**
Now there's a new and easier way for you to add airtime to your prepaid account:
1. Buy prepaid refill cards at AT&T wireless stores
2. Locate the PIN number associated with the prepaid card. In many cases, the PIN will be on the back of your card or printed on your receipt.
3. With most refill cards, add PIN value by using prepaid phone keypad: enter *888* followed by PIN number, then the # key (*888*PIN NUMBER#) and press SEND. Or refer to the instructions on back of the card or printed on PIN receipt.
4. Once you have entered your prepaid card number you will be informed of your new balance and expiration date.

Pay As You Go cards are available in these amounts:

Card Denomination Expiration Period

$15	30 days
$25	90 days
$50	90 days
$75	90 days
$100	365 days

One-year expiration period on $100 refill cards!

Included Features

Basic Voice Mail*	**Caller ID**
Call Forwarding*	**Three-Way Calling***
Call Waiting*	**Nationwide Long Distance**
International Calling^	

Check the International Long Distance Rates table for your travel destination.

Enhanced Features

Save on Night & Weekend minutes, Messaging & Data with new Feature Packages!! Click here for details.

Text and Instant Messaging**

When you can't talk, exchanging text messages is a quick and simple way to communicate. Just type your message with your wireless device keypad and send. Plus, enjoy instant messaging with the most popular IM communities.
$0.20 per message sent/received.

International Text Messaging**

Send international text messages from the US to friends, family, co-workers around the world.
$0.25 per message sent/$0.20 per message received.

Ringtones, Games and Graphics**

Personalize your phone with personal ringtones, unique graphics and exciting games. Plus, check out the exciting new take on tones: Answer Tones! Replace the standard ring your friends hear when they call with a custom tone that'll be music to their ears.
Learn more about AnswerTones
Additional charges apply.

Data**

A whole world of information and entertainment is at your fingertips with a data package. Get weather, news and sports scores delivered right to your phone. Even better, you control what you receive when you personalize your home page by placing your favorite categories and headlines right up front. Surfing the Web from your phone has never been easier.
$0.01 per KB.

Multimedia Messaging**

Instantly and easily share photos and videos-complete with a personalized voice or text message-right from your wireless phone.
Pay per message-$0.25 per message

Data Service Terms

Roaming in Mexico

Now you can use your GoPhone service when you travel to Mexico!

No additional feature is required to roam in Mexico - all GoPhone customers are automatically enrolled & eligible.
Roaming charges in Mexico are as follows:
- Standard airtime rate - $0.99 per minute
- Text Messaging - $0.50 per message sent/$0.20 per message received
- Instant Messaging - $0.50 per message sent/received
- Data - $0.0195 per KB
- Picture Messaging - $1.30 per message sent/$0.25 per message received

To reach customer service when roaming in Mexico dial 611 or + 1 (408) 962-1025.

View roaming coverage in Mexico

Learn more about roaming in Mexico

*Airtime charges apply for features usage.
** Compatible phone required.
^Airtime and international long distance rates apply.
For assistance placing your order by phone, call 1-888-4GoPhone® (1-888-446-7466). Special online pricing may not be available.

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GoPhone® Pick Your Plan

To order by phone, call 1-888-4GOPHONE (special online pricing may not be available)

View national map

All the benefits of wireless, without the surprises. This prepaid cell phone plan allows you to simply pay in advance for what you need. No long-term contracts, credit checks or deposits.

Highlights
• AutoPay for your rate plan once a month
• Pay with your credit card, debit card or checking account
• Track your usage—You will receive a text message with your updated balance after each call.

AT&T Advantages
• Rollover® Balance™ lets you carry over your unused account balance when you refill before your balance expires, up to the account maximum.
• No domestic long distance or roaming fees across our national service area.
• Unlimited Text Messaging option. Messaging and Data value packages available
• Unlimited Talk (on most plans).

Name of Plan	Monthly Cost	Anytime Minutes(up to)*	Cost Per Minute	Night and Weekend Minutes**	Mobile to Mobile Minutes	Nationwide Long Distance	Rollover® Balance	Additional Features
Pick Your Plan $29.99	**$29.99**	200	$.15	0		Included	Included	View Details
Pick Your Plan $39.99	**$39.99**	300	$.133	500	Unlimited	Included	Included	View Details
Pick Your Plan $49.99	**$49.99**	400	$.125	3000	Unlimited	Included	Included	View Details
Pick Your Plan $69.99 with Unlimited Talk	**$69.99**	650	$.108	Unlimited	Unlimited	Included	Included	View Details

Plan Terms

In certain areas, **taxes or fees relating to E911** are debited from your account balance monthly and will affect the number of minutes available.

*Number of minutes is based on entire account balance being used for voice calls. Use of balance for data, text messaging, directory assistance, ringtones or other items will affect the number of minutes available. In certain areas, taxes or fees relating to E911 are debited from your account balance monthly and will affect the number of minutes available.
**Night and weekend minutes will be used before Mobile to Mobile minutes.

How it Works

Pick the rate plan that fits you best, then set up monthly, automatic payments with your credit card, debit card or checking account. Funds are deducted from your balance each time you make or receive a call or use features such as Text Messaging. If you need to make more calls or use up your balance during the month, just add additional funds to your account at any time—you'll pay the same per minute rate as your plan.

Adding Minutes to Your Account
- You'll receive a voice message indicating you have a low balance when you place a call with less than $5 in your account.
- When your account reaches $0, you can add funds or stop using the service until your next scheduled payment.
- If your balance gets low before your next monthly payment, you can add funds in increments of $15 and $25 24/7 using your credit/debit card or checking account.
  - Online: Visit http://www.att.com/mygophone
  - By phone: Call 611 from your wireless phone or 1-866-499-7888 from a landline phone

Included Features

Basic Voice Mail*
Call Forwarding*
Call Waiting*
International Calling^
Caller ID
Three-Way Calling*
Nationwide Long Distance

Enhanced Features

MESSAGING OPTIONS
Text Messaging**

When you can't talk, exchanging text messages is a quick and simple way to communicate. Just type your message with your wireless device keypad and send.
Pay per message -- $0.20 per message sent/received.

Instant Messaging**

Enjoy instant messaging with the most popular IM communities.
Pay per use -- $0.20 per message sent/received.

Picture Messaging**

Instantly and easily share photos and videos-complete with a personalized voice or text message-right from your wireless phone.
Pay per message -- $0.25 per message sent/received.

Messaging Packages**

Save on text, instant and picture messages with a messaging package.
Messaging Starter -- 200 messages for $4.99 per month.
Messaging Standard -- 1000 messages for $9.99 per month.
Unlimited Messaging -- Unlimited messages for $19.99 per month.
See All Messaging Packages

International Text Messaging**

Send international text messages from the US to friends, family, co-workers around the world.
Pay per use -- $0.25 per message sent, $0.20 per message received.

Data for GoPhone Pick Your Plan**
A whole world of information and entertainment is at your fingertips with Data for GoPhone Pick Your Plan. Get weather, news and sports scores delivered right to your phone. Even better, you control what you receive when you personalize your home page by placing your favorite categories and headlines right up front. Surfing the Web from your phone has never been easier.
Pay per use -- $0.01 per KB
1 MB Value Package $4.99 per month
100 MB Value Package $19.99 per month

Ringtones, Answer Tones™, Games, and Graphics**
Personalize your phone with personal ringtones, unique graphics, and exciting games. Plus, check out the exciting new take on tones: Answer Tones! Replace the standard ring your friends hear when they call with a custom tone that'll be music to their ears.
Learn more about Ringtones and Downloads
Pay per use -- Additional charges apply.

Picture Messaging**
Instantly and easily share photos and videos-complete with a personalized voice or text message-right from your wireless phone.
Pay per message -- $0.25 per message

International Long Distance*
Keep in touch with friends, family, and associates who are outside of the U.S.
All Pick Your Plan customers can make international calls at standard international calling rates or choose the AT&T WorldConnect® Package for discounted rates - Great for customers who make frequent international calls!
AT&T WorldConnect® Package: $3.99 per month
View International Long Distance Rates

Roaming in Mexico

Now you can use your GoPhone service when you travel to Mexico!
No additional feature is required to roam in Mexico - all GoPhone customers are automatically enrolled & eligible.
Roaming charges in Mexico are as follows:
- Standard airtime rate - $0.99 per minute
- Text Messaging - $0.50 per message sent/$0.20 per message received
- Instant Messaging - $0.50 per message sent/received
- Data - $0.0195 per KB
- Picture Messaging - $1.30 per message sent/$0.25 per message received

To reach customer service when roaming in Mexico dial 611 or + 1 (408) 962-1025.

View roaming coverage in Mexico

Learn more about roaming in Mexico

*Airtime charges apply for features usage.
**Compatible phone required.
^Airtime and international long distance rates apply.
For assistance placing your order by phone, call 1-888-4GoPhone® (1-888-446-7466). Special online pricing may not be available.

Compare GoPhone® Plans | Plan Terms | Brochure | Online Pricing | Return Policy

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Data Plans
BlackBerry Plans
PDA/Smartphone Plans
Laptop Connect Plans

Data Plans

More ways to stay connected

Sometimes you need to do more than talk. AT&T's Data plans keep you connected to your world in the ways you need most − text, email, IM, video messaging and more!

To order by phone, call 1-888-333-6651 (special online pricing and some devices may not be available)

Data coverage in your area

AT&T has the fastest 3G network in America. Enter your ZIP Code to check your coverage area.

ZIP Code

View national map

View Data plans

BlackBerry® Devices

Send, receive, forward and reply to messages from up to 10 email accounts while on the go!
View Map and Coverage Limitations.

Data and Voice

Need both data and voice? Start by choosing a voice plan or device before selecting a data feature.

Data Only

View BlackBerry Data plans

PDA & Smartphones

Access and manage your personal e-mail anytime on your PDA wireless handheld from up to 3 accounts.
View Map and Coverage Limitations.

Data and Voice

Need both data and voice? Start by choosing a voice plan or device before selecting a data feature.

Data Only

View PDA & Smartphone Data plans

Laptop Cards

Send & receive email, browse the Internet, and access your corporate intranet while on the go with DataConnect.
View Map and Coverage Limitations.

Service is not available at all times or in all places.

Data Only

View DataConnect Data plans

We also have Messaging and Media products for other services.

Add data features for other cell phones and devices.
Please note: You must have a voice plan before you can add data features.

- Messaging Unlimited
- Data Unlimited
- All Messaging and Media features

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The first nationwide carrier to be awarded Wireless Consumer Information Code Quality For details visit www.ctia.org.

BlackBerry® Personal Plans - Data Only

The following data plans are for customers who want data only. You can save money if you intend to buy voice and data together. Start by choosing an individual or FamilyTalk plan, then BlackBerry Personal Plans for only $30 or BlackBerry Personal + tethering for $60.

Access and manage e-mail from up to 10 ISP accounts with a BlackBerry® Wireless handheld. Send, receive, forward and reply to messages while on the go! Service is not available at all times in all places. View Map and Coverage Limitations.

BlackBerry Personal + tethering enables you to connect your wireless device to your laptop via Bluetooth or a connection cable. Certain usage restrictions may apply. See Explanation of Rates and Charges for details.

View national map

DataConnect is not an unlimited plan. Learn more about data usage

Plan Name	Monthly Cost	Included Data	Additional data	International Data	Additional Features
BlackBerry® Personal	**$35.00***	Unlimited	0/KB	0.0195/KB	View Details
*Data Add-on is only **$30.00** if you buy it with an individual or FamilyTalk voice plan.					
BlackBerry® Personal + tethering	**$65.00****	5 GB	0.00048/KB	0.0195/KB	View Details
Data Add-on is only **$60.00 if you buy it with an individual or FamilyTalk voice plan.					

Other Monthly Charges | Plan Terms | Online Pricing | Return Policy
Additional Messaging & Data Charges

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PDAs and Smartphones - Data Only

The following data plans are for customers who want data only. You can save money if you intend to buy voice and data together. Start by choosing an individual or FamilyTalk plan, then add PDA Personal for only $30 or PDA Personal + tethering for $60.

Access and manage your personal email from up to 3 accounts with a PDA wireless device. Send, receive, forward, and reply to messages while on the go.

PDA + tethering enables you to connect your wireless device to your laptop via Bluetooth or a connection cable. Certain usage restrictions may apply. See Explanation of Rates and Charges for details.

View national map

DataConnect is not an unlimited plan. Learn more about data usage

Plan Name	Monthly Cost	Included Data	Additional data	International Data	Additional Features
PDA Personal	**$35.00***	Unlimited	0/KB	0.0195/KB	View Details
*Data Add-on is only **$30.00** if you buy it with an individual or FamilyTalk voice plan.					
PDA Personal + tethering	**$65.00****	5 GB	0.00048/KB	0.0195/KB	View Details
Data Add-on is only **$60.00 if you buy it with an individual or FamilyTalk voice plan.					

Other Monthly Charges | Plan Terms | Online Pricing | Return Policy
Additional Messaging & Data Charges

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DataConnect Plans

With DataConnect for your laptop - you can send and receive email, browse the Internet, and access your corporate intranet while on the go by connecting your laptop to the Internet over the AT&T wireless network. Service is not available at all times in all places. View Map and Coverage Limitations.

DataConnect is not an unlimited plan. Learn more about data usage

View national map

Plan Name	Monthly Cost	Included Data	Additional data	International Data	Additional Features
DataConnect 5 GB	**$60.00**	5 GB	0.00048/KB	0.0195/KB	View Details

Other Monthly Charges | Plan Terms | Online Pricing | Return Policy
Additional Messaging & Data Charges

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Exchange	NYSE
Sector	Consumer Services
Industry	Broadcasting
1 Year Target	$340.00
Today's High/Low	$275.25/$266.41

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Interesting SPOT Put And Call Options For August 13th

BNK INVEST • 2 HOURS AGO

The Evidence for and Against an Imminent Correction in Stocks

5 HOURS AGO

Daily Markets: New Quarter Kicks off With Jobless Claims Report, Manufacturing Data

6 HOURS AGO

Better Buy: Spotify vs. Verizon

THE MOTLEY FOOL • 1 DAY AGO

Estimating The Intrinsic Value Of Spotify Technology S.A. (NYSE:SPOT)

SIMPLY WALL ST • 1 DAY AGO

Notable Tuesday Option Activity: UPS, TWTR, SPOT

BNK INVEST • 1 DAY AGO

Amazon scoops up exclusive rights to celebrity podcast 'SmartLess'

REUTERS • 2 DAYS AGO

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Trending Stocks

AMC
AMC Entertainment Holdings, Inc. Class A Common Stock
$53.1588 -3.5212 6.21% ▼

GME
GameStop Corporation Common Stock
$203.7392 -10.4008 4.86% ▼

TSLA
Tesla, Inc. Common Stock
$675.1175 -4.5825 0.67% ▼

AAPL
Apple Inc. Common Stock
$136.925 -0.035 0.03% ▼

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Investors may trade in the Pre-Market (4:00-9:30 a.m. ET) and the After Hours Market (4:00-8:00 p.m. ET). Participation from Market Makers and ECNs is strictly voluntary and as a result, these sessions may offer less liquidity and inferior prices. Stock prices may also move more quickly in this environment. Investors who anticipate trading during these times are strongly advised to use limit orders.

- **Real-time Data is provided using Nasdaq Last Sale Data**

Market Cap (Capitalization) is a measure of the estimated value of the common equity securities of the company or their equivalent. It does not include securities convertible into the common equity securities. "Market Cap" is derived from the last sale price for the displayed class of listed securities and the total number of shares outstanding for both listed and unlisted securities (as applicable). NASDAQ does not use this value to determine compliance with the listing requirements.

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Spotify Technology SA (SPOT)
$268.63

Spotify Technology SA SPOT L8681T102 BFZ1K46 NYSE Common stock Source: FactSet Fundamentals	DEC '16	SEP '16	JUN '16	MAR '16
Sales	939.7	833.7	806.2	682.5
Gross Income	174.6	156.3	126.5	89.3
EBIT (Operating Income)	-84.1	-43.5	-93.7	-60.6
Pretax Income	-91.6	-141.7	-208.9	-149.9
Consolidated Net Income	-91.6	-145.1	-208.9	-153.2
Net Income	-91.6	-145.1	-208.9	-153.2
Per Share				
EBITDA				

All figures in millions of U.S. Dollar except per share items.

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Help & Customer Service

‹ All Help Topics

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- About Prime Day
- Sign Up for the Amazon Prime Free Trial
- Share Your Amazon Prime Benefits
- Pause Your Amazon Prime Membership
- End Your Amazon Prime Membership
- **The Amazon Prime Membership Fee**
- Use Buy Now with Amazon Prime
- Using a Promotional Code for Amazon Prime
- Exchange a Prime Gift Membership
- Buy a Prime Gift Membership
- Scan the Amazon Elements Code
- Amazon Prime Terms
- Electronic Benefits Transfer (EBT) Cards
- Amazon Incentives Purchase Terms for Amazon Prime Membership Codes
- About Amazon Fresh

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- Returns & Refunds — Exchange or return items
- Manage Prime — Cancel or view benefits
- Payment Settings — Add or edit payment methods
- Carrier Info — Shipping carrier information
- Account Settings — Change email or password

Find more solutions

Shipping and Delivery › Amazon Prime ›

The Amazon Prime Membership Fee

When your free trial or membership period ends, we'll automatically charge for the next membership period.

Note: The annual membership fees for Amazon Prime and Prime Student changed on May 11, 2018. Monthly memberships remain at $12.99 and $6.49. For more information, see Amazon Prime Price Change.

Amazon Prime membership fees are:

- $12.99 per month (plus taxes)
- $119 per year (plus taxes)
- Prime Video membership is $8.99 per month (plus taxes)

Qualifying EBT and government assistance recipients can get a Prime membership discount. Visit amazon.com/qualify and verify your eligibility to pay $5.99 per month for a maximum of four years.

Your Prime Membership may be subject to sales tax in some states.

To cancel your Amazon Prime membership, go to Manage Prime Membership. If you didn't use any Prime benefits, we'll refund your current membership period.

Note:

- If your Prime membership is through a service from another company (such as Sprint), contact that company for details about your membership rate and to manage your membership.
- When offered, a Prime membership promotion allows you to buy a non-refundable year of Prime Membership at a discounted rate. It extends the membership of any current Prime member by one year. We won't charge you again until after your promotional membership has ended. If you cancel your Prime Membership, you also cancel any unused extensions.

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Help

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Stream millions of songs

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Find, attract, and engage customers

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Score deals on fashion brands

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ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

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Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

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