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MUSIC STREAMING IS BENEFICIAL TO THE MUSIC INDUSTRY

Spotify is committed to the success of artists, songwriters, producers and performers. The music industry is growing again, and after years of stagnant growth, the shift from ownership model to access model has been the contributing factor in that growth. At Spotify, we pay the great majority of our revenue back to the music industry. Critics of music streaming services argue that the services do not pay artists enough royalties for their music. Streaming actually boosts artists by giving them exposure to a vast audience they may not otherwise be able to reach by forcing listeners to pay for their full songs. Music streaming is not just beneficial for users and listeners of the service; it benefits artists and the industry as a whole.

Music streaming is changing the industry business model. Artists get smaller payments but get them much more often. This is in contrast to paying for upfront music consumption. Rather than getting paid once for an album, artists are compensated every time someone listens.

The music industry is changing – and we’re proud of our part in that change – but lots of problems that have plagued the industry since its inception continue to exist. We’ve already paid more than \$2 billion in royalties to the music industry and if that money is not flowing to the creative community in a timely and transparent way, that’s a big problem. We will do anything we can to work with the industry to increase transparency, improve speed of payments and give artists the opportunity to promote themselves and connect with fans – that’s our responsibility as a leader in this industry; and it’s the right thing to do. At Spotify,

we are committed to paying songwriters and publishers every penny.

Unfortunately, especially in the United States, the data necessary to confirm the appropriate rights holders is often missing, wrong, or incomplete. When rights holders are not immediately clear, we set aside the royalties we owe until we are able to confirm their identities. We are working closely with the National Music Publishers Association to find the best way to correctly pay the royalties we have set aside and we are investing in the resources and technical expertise to build a comprehensive publishing administration system to solve this problem for good.

We believe our business model supports the profitability scale. We believe that we will generate substantial revenues as our reach expands and that, at scale, our margins will improve. We are currently in negotiations to re-sign most of the deals with the record industry to ensure Spotify succeeds financially in a industry climate that is slow to adapt to music streaming.

We're trying to build a new music economy that works for artists in a way the music industry never has before, and it is working. Spotify is the single biggest driver of growth in the music industry, the number one source of increasing revenue and the first or second biggest source of overall music revenue in many places.

We're getting fans to pay for music again. We're connecting artists to fans they would never have otherwise found, and we're paying them for every single listen. We're not just streaming, we're mainstreaming now, and that's good for music makers and music lovers around the world.

In response to the critics of music streaming: this is the platform in which millennials are consuming music. Gone are the days of CDs, and even music downloads are not as prevalent as before. As of last year, compared to iTunes, the average listener spends \$60 annually on music, whereas Spotify Premium users spent twice that amount. The royalty payout is proportional to the growth of the platform, and since Spotify's inception, the pay per play rate has doubled.

Artists will continue to be compensated more and more based on the growth of

music steaming services. Once the music industry fully embraces the benefits of music streaming just as listeners have, artist compensation will continue to increase, benefiting the creators of music and not just the users of music streaming services.