

# Spotify Ltd

Reg.nr. 06436047

Report and Financial Statements  
for the year 31st December 2013



**Spotify®**

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Spotify Ltd. Registered number 06436047.

**The Company is incorporated in England and Wales.**

**Company number:** 06436047

**Registered office:** St James House  
13 Kensington Square  
London  
United Kingdom  
W8 5HD

**Company secretary:** Goodwille Limited  
St James House  
13 Kensington Square  
London  
United Kingdom  
W8 5HD

**Current Directors:** Daniel Ek  
Angela Watts

**Auditors:** Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

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## Strategic report for the year ended 31 December 2013

Spotify Ltd. Registered number 06436047

### Principal activities

Spotify Limited is a subsidiary of Spotify Technology S.A. and is a part of the Spotify Group.

The principal activities of the Company is that of a music management platform providing instant access to millions of tracks through high-quality desktop, mobile phone and other device applications.

The Spotify application, "the App", is a small application users can download to access a huge database of music through a unique streaming protocol. Essentially, the App employs a hybrid model, streaming music centrally as well as incorporating peer-to-peer technology, which allows the music to be played instantly.

### Review of business and future developments

The Company aggregates content from its various rights holders, distributes to consumers through its technical platform and monetises through a free-to-the-user, advertising-supported service, a paid subscription service, and through the sale of music downloads.

The App is currently available in Europe, United States and Australia and in 2013 the Company has launched in 32 new markets.

Total revenue increased from £92,612,389 to £131,387,108. This was mainly due to an increase in advertising revenue from £9,432,795 to £10,205,158 and sales of subscriptions that increased from £64,756,426 to £91,954,279. This increase can be attributed to our partnership with Vodafone UK and to a student discount both implemented in 2013. Gross profit has increased from £15,962,317 to £35,218,408. This is attributable to the increase in revenue and due to cost of sales, including royalties paid to content owners, decreasing as a percentage of revenue.

Spotify Limited operates and provides the music service for end-consumers (private individuals) in the UK.

The Company's primary focus is to continue its rapid growth and consolidate the business within a fast-moving industry, which counts a number of influential players within its space. It is crucial that Spotify continues to penetrate existing and new markets as quickly as possible and continues to build on the success which has seen the Company emerge as the largest and fastest growing music subscription service of its kind worldwide.

### Financial risk management objectives and policies

Further information on risks and uncertainties is given in note 17 of the financial statements.

### On behalf of the board



Angela Claire Mary Watts  
Director

Date: 30.9.14

## Report of the Directors for the year ended 31 December 2013

Spotify Ltd. Registered number 06436047

The Directors present their annual report and the audited financial statements for the year ended 31 December 2013.

### Going concern

The Directors have obtained written confirmation of the intention of the ultimate parent, Spotify Technology S.A., to provide ongoing financial support to Spotify Limited.

Having reviewed the Company and the Group's liquid resources and 2014 and 2015 cash flow forecasts, the Directors believe that the Group has adequate resources to continue as a going concern. For this reason, the financial statements have been prepared on that basis. The Group continues to have ambitious growth plans and has launched in several new countries during 2014 and will continue to do so in 2015.

### Results and dividends

The Company generated a profit for the year after taxation of £2,574,838 (2012: £11,010,236 loss). No dividends were declared or proposed for the year ended 31 December 2013.

### Directors

The Directors who held office during the year and thereafter are given below:

Daniel Ek  
James Duffett-Smith (appointment terminated 25 June 2013)  
Angela Claire Mary Watts (appointed 25 June 2013)

### Directors' liabilities

The Company has not granted any indemnity against liability to its Directors during the year or at the date of approving the Directors' Report.

### Events after the reporting year

The Group continues to have ambitious growth plans and has launched in several new countries during 2014 and will continue to do so in 2015.

### Statement of disclosure to auditors

- so far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report of which the auditor is unaware; and
- having made enquiries of the auditor and of each other, the Directors have taken all the steps that they are obliged to take as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

A resolution to appoint Ernst & Young LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with the Companies Act 2006.

### On behalf of the board



Angela Claire Mary Watts  
Director

Date: 30.9.14

## Statement of Directors' responsibilities

Spotify Ltd. Registered number 06436047

The Directors are responsible for preparing their Annual Report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing those financial statements, the Directors are required:

- to select suitable accounting policies in accordance with IAS 8 and then apply them consistently;
- to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- to provide additional disclosure when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- to state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Where appropriate, the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website of the Group of which the Company is a member. It is important to bear in mind that the legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent Auditor's report to the members of Spotify Limited**

Spotify Ltd. Registered number 06436047

We have audited the Annual Report and financial statements of Spotify Limited for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### **Respective responsibilities of Directors and auditors**

As explained more fully in the Director's responsibilities set out on page 4 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
  
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
  
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Independent Auditor's report to the members of Spotify Limited (continued)

Spotify Ltd. Registered number 06436047

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

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

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

*Ernst & Young LLP*

Gordon Cullen (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date:

*30/9/14*



## Statement of comprehensive income

Spotify Ltd. Registered number 06436047

		2013	2012 (as restated per note 1)
	Note	£	£
<b>Continuing operations</b>			
Revenue	2	131,387,108	92,612,390
Cost of sales		(96,168,700)	(76,650,072)
<b>Gross profit</b>		<u>35,218,408</u>	<u>15,962,318</u>
Distribution costs		(8,853,254)	(3,454,844)
Administrative expenses	5	(20,582,457)	(14,431,571)
Other operating income		13,596,293	7,278,675
Other operating expenses		(15,119,519)	(9,981,175)
<b>Operating profit/(loss)</b>	6	<u>4,259,471</u> #	<u>(4,626,597)</u>
<b>Profit/(loss) on sale of intangible asset</b>	3	<b>168,614</b>	<b>(7,040,227)</b>
Finance income		951,548	2,329,927
Finance costs		(2,804,795)	(1,673,338)
<b>Finance costs - net</b>	4	<u>(1,853,247)</u>	<u>656,589</u>
<b>Profit/(loss) before tax from continuing operations</b>		<b>2,574,838</b>	<b>(11,010,235)</b>
Income tax expense	7	-	-
<b>Profit/(loss) for the year</b>		<u><u>2,574,838</u></u>	<u><u>(11,010,235)</u></u>

The accompanying notes are an integral part of this statement of comprehensive income.

The profit/loss for the year is attributable to owners of the Company.

There are no recognised gains or losses in the year other than those items recorded in the statement of comprehensive income above.

## Statement of financial position

Spotify Ltd. Registered number 06436047

	Note	31 December 2013 £	31 December 2012 (as restated) £	1 January 2012 (as restated) £
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	11	94,445	5,053,933	2,815,347
Investments	12	103,820	111,113	111,113
Other non-current assets	13	<u>3,977,552</u>	<u>2,056,141</u>	<u>19,384,016</u>
		<b>4,175,817</b>	<b>7,221,187</b>	<b>22,310,476</b>
<b>Current assets</b>				
Cash and cash equivalents	9	9,351,557	11,931,604	25,495,738
Trade and other receivables	10	50,400,708	133,065,889	51,276,412
Other current assets		-	58,630	232,237
		<u>59,752,265</u>	<u>145,056,123</u>	<u>77,004,387</u>
<b>Total assets</b>		<b><u>63,928,083</u></b>	<b><u>152,277,310</u></b>	<b><u>99,314,863</u></b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Provisions		(142,000)	-	-
Interest bearing loans	16	<u>(28,123,933)</u>	<u>(58,692,704)</u>	<u>(18,591,837)</u>
		<b>(28,265,933)</b>	<b>(58,692,704)</b>	<b>(18,591,837)</b>
<b>Current liabilities</b>				
Trade and other payables	14	(49,295,497)	(110,541,724)	(87,619,399)
Other current liabilities		(63,449)	(2,835)	(1,475)
		<u>(49,358,946)</u>	<u>(110,544,559)</u>	<u>(87,620,874)</u>
<b>Net liabilities</b>		<b><u>(13,696,796)</u></b>	<b><u>(16,959,952)</u></b>	<b><u>(6,897,847)</u></b>
<b>EQUITY</b>				
Share capital	15	1,000	1,000	1,000
Shareholder contributions		14,544,300	14,544,300	14,544,300
Retained earnings		(28,242,096)	(31,505,252)	(21,443,147)
<b>Total equity</b>		<b><u>(13,696,796)</u></b>	<b><u>(16,959,952)</u></b>	<b><u>(6,897,847)</u></b>

The accompanying notes are an integral part of this Statement of financial position. The financial statements of Spotify Limited, registration number 06436047, on pages 7 to 32 were approved by the Board of Directors and authorised for issue on 30/9 2014.

They were signed on its behalf by:



Angela Claire Mary Watts  
Director

Date: 30.9.14

## Statement of changes in equity for the year to 31 December 2013

Spotify Ltd. Registered number 06436047

Attributable to equity holders of the Company.

	Share capital £	Shareholder contributions £	Retained earnings £	Total £
<b>Balance at 1 January 2012 (as previously stated)</b>	<b>1,000</b>	<b>14,544,300</b>	<b>(22,437,661)</b>	<b>(7,892,361)</b>
Prior period adjustments			994,514	994,514
<b>Balance at 1 January 2012 (as restated)</b>	<b>1,000</b>	<b>14,544,300</b>	<b>(21,443,147)</b>	<b>(6,897,847)</b>
Share based payment charge			948,130	948,130
Total comprehensive loss for the year in 2012			(11,010,235)	(11,010,235)
<b>Balance at 31 December 2012 (as restated)</b>	<b>1,000</b>	<b>14,544,300</b>	<b>(31,505,252)</b>	<b>(16,959,952)</b>
Share based payment charge			688,319	688,319
Total comprehensive loss for the year in 2013			2,574,838	2,574,838
<b>Balance at 31 December 2013</b>	<b>1,000</b>	<b>14,544,300</b>	<b>(28,242,096)</b>	<b>(13,696,796)</b>

## Statement of cash flows for the year to 31 December 2013

Spotify Ltd. Registered number 06436047

	Note	2013 £	2012 (as restated) £
<b>Cash flows from operating activities</b>			
<b>Profit/(Loss) before tax from continuing operations</b>		2,574,838	(11,010,236)
Depreciation	11	3,331,550	1,543,664
Loss on disposal of property, plant and equipment		137,152	-
(Gain)/Loss on sale of intangible asset		(168,614)	7,040,227
Share based payments transactions cost		688,319	948,131
Movements in Provisions		142,000	-
		<u>6,705,245</u>	<u>(1,478,214)</u>
<b>Working capital adjustments</b>			
Increase/(decrease) in receivables		92,151,491	(88,401,491)
(Decrease)/increase in payables		(61,185,613)	22,923,685
		<u>30,965,878</u>	<u>(65,477,806)</u>
<b>Net cash flows from operating activities</b>		<u><u>37,671,123</u></u>	<u><u>(66,956,020)</u></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(7,871,522)	(3,782,250)
Profit from sales of intangible assets		31,462	-
<b>Net cash flows used in investing activities</b>		<u><u>(7,840,060)</u></u>	<u><u>(3,782,250)</u></u>
<b>Financing activities</b>			
Proceeds from Borrowings		-	17,327,875
Issued Loans to Intercompany		(1,921,411)	-
Repayments of Borrowings		(30,426,771)	-
Borrowings		-	40,100,867
<b>Net cash flows from financing activities</b>		<u><u>(32,348,182)</u></u>	<u><u>57,428,742</u></u>
Effects of exchange rates on cash and cash equivalents		(62,928)	(254,606)
<b>Net decrease in cash and cash equivalents</b>		<u><u>(2,580,047)</u></u>	<u><u>(13,564,134)</u></u>
<b>Cash and cash equivalents at beginning of year</b>		<u><u>11,931,604</u></u>	<u><u>25,495,738</u></u>
<b>Cash and cash equivalents at end of year</b>		<u><u>9,351,557</u></u>	<u><u>11,931,604</u></u>

## Notes to the financial statements

Spotify Ltd. Registered number 06436047

Spotify Limited is a private limited Company incorporated and domiciled in England and Wales.

### Note 1 Accounting policies

#### Basis of preparation

The financial statements of Spotify Ltd have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the Interpretations of the same by the Standing Interpretations Committee (SIC) and/or the International Financial Reporting Committee (IFRIC) adopted for use in the European Union.

The financial statements of Spotify Ltd have been prepared under the historical cost convention and in accordance with the Companies Act 2006. The Company has taken advantage of the exemption available under S401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as they are included in the consolidated financial statements of Spotify Technology S.A. which are publically available.

The principal accounting policies are set out below. These, except to the extent noted, have been applied on a consistent basis. The financial statements are presented in GBP sterling.

#### Going concern

The Directors have obtained written confirmation of the intention of the ultimate parent, Spotify Technology S.A., to provide ongoing financial support to Spotify Limited.

Having reviewed the Company and the Group's liquid resources and 2014 and 2015 cash flow forecasts, the Directors believe that the Company has adequate resources to continue as a going concern. For this reason, the financial statements have been prepared on that basis.

#### Foreign currency translation

##### (a) Functional and presentation currency

The financial statements are presented in GBP Sterling which is the Company's functional and presentation currency.

##### (b) 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The differences between retained profits of overseas subsidiary and associated undertakings translated to average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to GBP Sterling (using closing rates of exchange) of overseas net assets at the beginning of the year.

#### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is shown as net of sales/value added tax, returns, rebates and discounts.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Revenue recognition (continued)

The Company recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company's activities, as described below:

#### (a) Sale of advertisements

The Company sells advertisements on its service. Advertising revenues are deferred and recognised over the period in which the advertisement is displayed in the Spotify player provided that no significant obligations remain at the end of the period and collection of the resulting debt is probable.

Subscription revenue is based on the actual number of activated Premium subscriptions and is recognised on a straight-line basis over the life of the subscription. Revenue from partner sales premiums certificates is recognised from activation of the account on a straight line basis over the life of the subscription. If a certificate expires without activation revenue is recognised. The expiration time is 12 months from the date of sale.

#### (c) Sale of partner subscriptions

Revenue from the partner sales premiums certificates is recognised from the date when the account is activated on a straight line basis over the life of the subscription. If a certificate expires without the account being activated revenue is recognised at the date for expiration. The certificate expires within 12 months from the date of sale.

#### (d) Interest income

Interest income is recognised using the effective interest method.

#### (e) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### Cost of Sales

Cost of sales consists primarily of royalty and distribution costs related to music streaming. The Company incurs royalty costs paid to certain music record labels and other rights holders for the right to stream music to the Company's users. Royalties are calculated using negotiated rates in accordance with master license agreements and are based on subscription and advertising revenue earned usage measures or a combination. Increases or decreases in the provision for unrecoverable royalty costs are recognised in Cost of sales. Cost of sales also consists of other costs incurred to support music distribution such as customer service, certain employee compensation and benefits, facility and equipment costs and payment processing fees.

#### Property, plant and equipment

Equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes 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 management.

The Company adds to the carrying amount of an item of equipment the cost of replacing parts of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the reducing balance method as follows:

Property, plant and equipment	20% - 33% per annum
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

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 (note 12). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating expenses – net' in the statement of comprehensive income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Impairment of trade receivables

An impaired assessment is made for all Trade Receivables and in addition, receivables overdue more than 60 days are impaired by 25% and receivables overdue more than 90 days are impaired by 100%, unless there are indications that the receivable will be paid.

#### Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired or when annual impairment testing for an asset is required, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGUs) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### Borrowings

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down 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 capitalised as pre-payment for liquidity services and amortised over the period of the facility to which it relates.

#### Trade and other receivables

Trade and other receivables, which generally have a 30 day term, are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

#### Trade and other payables

Trade and other payables, which generally have a 30 day term, are recognised and carried at their invoiced value inclusive of any VAT that may be applicable.

#### Financial instruments

The Company's financial assets include trade and other receivables and the Company's financial liabilities include trade and other payables.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the receivables are derecognised or impaired.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Impairment of financial assets

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset is impaired. The financial asset is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

Significant financial difficulty of the issuer or obligor.

- A breach of contract, such as a default or delinquency in interest or principal payments
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation,
- The disappearance of an active market for that financial asset because of financial difficulties, or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) Adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) National or local economic conditions

The Company first assesses whether objective evidence of impairment exists.

#### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at bank and on hand.

#### Share capital

Ordinary shares are classified as equity.

Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.



## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Share-based payments

Employees 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 recognised, together with a corresponding increase in accumulated deficit in equity over the period in which the performance is fulfilled.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest and the extent to which the vesting period has expired.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition. In these situations awards are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised 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 modifications to any share-based payment transactions.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Company or the grantee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally. There were no cancellations of awards during 2013 and 2012.

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 as of the end of each reporting period. The amount of the liability reflects the amortisation 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 recognised.

#### Defined contribution plans

The Company pays contributions to publicly and privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense in the consolidated income statement when they are made.

#### Provisions

Provisions are recognised when the Company 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.

#### Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. The present corporate income tax rate in the UK is 23.25% (2012: 24.5%).

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Current and deferred income tax (continued)

Deferred income tax is recognised on temporary differences (other than temporary differences associated with unremitted earnings from foreign subsidiaries and associates to the extent that the investment is essentially permanent in duration, or temporary differences associated with the initial recognition of goodwill) arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Deferred tax assets are recognised 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 realised. 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 Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

#### Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of the finance charges, are included in borrowings in the statement of financial position. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

#### Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### Change in accounting policy and restatements

#### New standards and interpretations adopted by the Company

##### IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance.

##### IAS 12 Disclosures of interests in other entities

IAS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements. IFRS 12 disclosures are provided in note 12.

##### IAS 19 Employee Benefits (Amendment)

These amendments primarily change the accounting for defined benefit plans by eliminating the corridor approach and calculating finance costs on a net funding basis. The adoption of this standard did not have a material impact on the Company's financial position or performance.

##### IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments have not impacted the Company's financial position or performance.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. Application of IFRS 13 has not materially impacted the fair value measurements of the Company.

#### **New standards and interpretations issued but not yet effective**

##### IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company’s financial position or performance. These amendments become effective for annual periods beginning on or after 1 January 2014.

##### IAS 15 Revenue from Contracts with Customers

IAS 15 provides enhancements for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. These amendments will be effective for reporting periods beginning on or after January 1, 2017. Early application is permitted. The Group is assessing the impact of this standard.

##### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### **Key sources of estimation uncertainty**

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in note 2.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of the future.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The significant area for key sources of estimation uncertainty are impairment of accounts receivable which are valued at fair value. See further in note 17.

Share-based payments – the Company measures the cost of equity-settled transactions with 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 notes 8.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Restatements

In 2013, Spotify Ltd has restated the financial statements for the years ended 31 December 2012 and 31 December 2011 in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Correction of Errors*. This note addresses the correction of errors and certain changes in accounting policies.

The company restated previous periods primarily in connection with errors in the assumptions used to calculate and recognise share-based payments.

The column "Adjustments" represents impacts on the consolidated income statement and accumulated deficit. The impact of the change in accounting policy and restatements on the income statement for the year ended 31 December 2012 and the statements of financial position as at 31 December 2012 and 1 January 2012 was as follows:

#### Statement of comprehensive income

	2012 as previously reported £	Adjustment	2012 restated £
<b>Continuing operations</b>			
Revenue	92,612,390		92,612,390
Cost of sales	(76,210,770)	(439,302) a)	(76,650,072)
<b>Gross profit</b>	<b>16,401,620</b>		<b>15,962,318</b>
Distribution costs	(3,454,844)		(3,454,844)
Administrative expenses	(13,820,919)	(610,652) b)	(14,431,571)
Other operating income	4,216		4,216
Other operating expenses	(2,855,232)	148,516 c)	(2,706,716)
<b>Operating loss</b>	<b>(3,725,159)</b>		<b>(4,626,597)</b>
<b>Loss on sale of intangible asset</b>	<b>(7,040,227)</b>		<b>(7,040,227)</b>
Finance income	2,329,927		2,329,927
Finance costs	(1,673,338)		(1,673,338)
<b>Finance costs - net</b>	<b>656,589</b>		<b>656,589</b>
<b>Loss before tax from continuing operations</b>	<b>(10,108,797)</b>		<b>(11,010,235)</b>
Income tax expense	-		-
<b>Loss for the year</b>	<b>(10,108,797)</b>	<b>(901,438)</b>	<b>(11,010,235)</b>

a) The company identified certain adjustments primarily related to accrual of rebates earned by vendors, royalty breakage calculations based on per user instead of share of revenue and adjustment of reservations made for vendors.

b) The company determined that the assumptions used in estimating the fair value of the share based compensation were incorrect. The adjustments mainly related to recognition of share issuance costs against equity.

c) The company identified certain adjustments relating to foreign exchange revaluation.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 1 Accounting policies (continued)

#### Statement of financial position

	2012 as previously reported £	Adjustment	2012 restated £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5,053,933		5,053,933
Investments	111,113		111,113
Other non-current assets	<u>2,056,141</u>		<u>2,056,141</u>
	<b>7,221,187</b>		<b>7,221,187</b>
<b>Current assets</b>			
Cash and cash equivalents	11,931,604		11,931,604
Trade and other receivables	133,065,889		133,065,889
Other current assets		58,630 e)	58,630
	<u>144,997,493</u>		<u>145,056,123</u>
<b>Total assets</b>	<b><u>152,218,680</u></b>		<b><u>152,277,310</u></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions			
Interest bearing loans	<u>(58,692,704)</u>		<u>(58,692,704)</u>
	<b>(58,692,704)</b>		<b>(58,692,704)</b>
<b>Current liabilities</b>			
Trade and other payables	(111,524,301)	982,578 d)	(110,541,724)
Other current liabilities	<u>(2,835)</u>		<u>(2,835)</u>
	<b>(111,527,136)</b>		<b>(110,544,559)</b>
<b>Net liabilities</b>	<b><u>(18,001,160)</u></b>		<b><u>(16,959,952)</u></b>
<b>EQUITY</b>			
Share capital	1,000		1,000
Shareholder contributions	14,544,300		14,544,300
Retained earnings	<u>(32,546,460)</u>	1,041,208	<u>(31,505,252)</u>
<b>Total equity</b>	<b><u>(18,001,160)</u></b>		<b><u>(16,959,952)</u></b>

d) The company identified certain adjustments relating to accrual of rebates earned by vendors, royalty breakage calculations based on per user instead of share of revenue, adjustment of reservations made for vendors and foreign exchange revaluation.

e) The company identified certain adjustments relating to straight lining of rental cost.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 2 Revenue

The breakdown of the revenue is as follows:

Analysis of revenue by category	2013	2012
	£	£
Sales of advertisements	10,205,158	9,087,362
Sales of subscriptions	91,954,279	64,756,427
Intercompany Services	29,030,270	17,795,148
Other	197,401	973,453
<b>Total</b>	<b><u>131,387,108</u></b>	<b><u>92,612,390</u></b>

The majority of advertisements and subscriptions revenue is attributable to the UK and to intercompany sales as disclosed in note 19.

### Note 3 Profit/(Loss) on sale of intangible assets

	2013	2012
	£	£
Profit/(Loss) on sale of intangibles	168,614	(7,040,227)
<b>Total</b>	<b><u>168,614</u></b>	<b><u>(7,040,227)</u></b>

The profit/loss on sale of intangible asset relates to sales of the Intangible Property related to Spotify's technical platform and trademarks to a fellow subsidiary undertaking.

### Note 4 Finance income/costs - net

	2013	2012
	£	£
<b>Finance income</b>		
Interest income on financial assets measured at amortised cost	951,548	1,359,130
Net foreign exchange gains	-	970,797
<b>Total</b>	<b><u>951,548</u></b>	<b><u>2,329,927</u></b>
<b>Finance costs</b>		
Interest expense on financial liabilities measured at amortised costs	(1,560,243)	(1,134,712)
Impairment of shares in subsidiary	-	(538,626)
Net foreign exchange losses	(1,244,552)	-
<b>Total</b>	<b><u>(2,804,795)</u></b>	<b><u>(1,673,338)</u></b>
<b>Finance (costs) / income - net</b>	<b><u>(1,853,247)</u></b>	<b><u>656,589</u></b>

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 5 Employee information

	2013	2012
	£	£
Wages and salaries	5,973,323	4,879,330
Social security costs	1,147,661	765,240
Share based compensation costs	688,319	962,549
Pension plan costs	206,721	-
<b>Total</b>	<b>8,016,024</b>	<b>6,607,119</b>

The average monthly number of employees during the year was made up as follows:

	2013	2012
	£	£
Sales and Marketing	84	95
General and administration	36	16
<b>Total number of employees</b>	<b>120</b>	<b>111</b>

Directors' emoluments during the year were £145,062, (2012: £95,625)

The highest paid director received £72,728 (2012: £95,625). There is no pension or severance agreements between the Company and the directors.

One director received no emoluments from the company during the year or prior period as he was remunerated by other group companies for services rendered to the company.

See note 19.

### Note 6 Operating loss

Operating loss is stated after charging:

	2013	2012
	£	£
Depreciation on owned assets	3,331,551	1,543,665
Foreign exchange losses	1,460,489	2,992,139
Loss on disposal of property, plant and equipment	137,152	-
Operating lease rentals - Land and Buildings	945,970	608,778
Auditor's remuneration - audit	32,820	30,360

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 7 Tax

#### (a) Tax on loss on ordinary activities

There is no current or deferred tax charge/credit in 2013 and 2012.

#### (b) Factors affecting the current tax charge for the year

The current tax assessed for the year is different from the average UK standard rate of corporation tax of 23,25% (2012: 24,5%). The differences are explained as follows:

	2013 £	2012 £
Profit/(loss) on ordinary activities for the year before tax	(1,882,588)	(10,108,798)
Uplift adjustment	4,457,426	(901,438)
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23,25% (2012: 24,5%)	598,650	(2,697,508)
<i>Effects of:</i>		
Non-deductible expenses	339,565	76,268
Temporary differences	641,904	-
Utilisation of previously unrecognised tax losses	(1,580,119)	-
Losses utilised by other group companies	-	27,314
Tax losses carried forward	-	(2,593,926)
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

#### (c) Factors that may affect future tax charges

A reduction in the corporation tax rate to 21%, effective 1 April 2014, and to 20% effective 1 April 2015 was substantively enacted on 2 July 2013.

#### (d) Deferred tax

No deferred tax asset has been recognised on the tax losses carried forward as a result of uncertainty over when the losses will be utilised. Tax charges in future years will be reduced if tax losses brought forward are utilised. The available tax losses on which no deferred tax has been recognised are £23,929,473 (2012: £30,185,073). There are temporary differences on which no deferred tax asset has been recognised, amounting to £3,119,185 (2012: £605,913)



## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 8 Share based payment

#### 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. The share-based payment transaction charge in 2013 is £ 688,319 (2012: £948,130).

The assumptions and models used for estimating fair value for share based payment transactions are disclosed below:

The exercise price of the options is equal to the fair value of the shares on grant date for employees in the United States and fair value less 30% for the rest of the world. The first vesting period (25% of the initial grant) is up to one year from the grant date and subsequently at a rate of 6.25% each quarter until fully vested. The vesting of certain options will accelerate in the event of an IPO or other change in control event. 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. There is one annual exercise window in September each year where vested options can be exercised, plus a final exercise window at the end of the five-year option term.

Reconciliation of option movements over the year:

	<b>ESOP</b>	
	<b>Number of options</b>	<b>WAEP</b>
		<b>US\$</b>
Outstanding at 1 January 2012	18,618	276
Granted	4,741	459
Forfeited	(1,872)	301
Exercised	(1,871)	271
Expired	(339)	296
Transferred in	184	271
Transferred out	(3,136)	305
<b>Outstanding at 31 December 2012</b>	<b>16,325</b>	<b>321</b>
Granted	2,546	580
Forfeited	(403)	300
Exercised	(507)	272
Expired	(254)	343
Transferred in	285	436
Transferred out	(944)	315
<b>Outstanding at 31 December 2013</b>	<b>17,048</b>	<b>363</b>
<b>Exercisable at 31 December 2012</b>	<b>6,375</b>	<b>296</b>
<b>Exercisable at 31 December 2013</b>	<b>9,835</b>	<b>315</b>

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 8 Share-based payments (continued)

The weighted average contractual life for the share options outstanding as at December 31, 2013 is 2.8 years (2012: 3.5 years).

The weighted average share price for options exercised during 2013 was £466 (2012: £405). The weighted average fair value of options granted during the year ended December 31, 2013 was £189 per option (2012: £171).

The share options outstanding are comprised of:

	2013		2012	
	Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
Range of exercise prices (US\$)				
Below 300	10,488	2.2	12,030	3.2
300 – 500	3,913	3.2	4,295	4.2
500 – 700	2,435	4.3	-	-
Above 700	212	4.3	-	-
	<u>17,048</u>		<u>16,325</u>	

In determining the fair value of the employee stock-based awards, the Company uses the Black-Scholes option-pricing model. The expected volatility is based on the historical volatility of public companies that are comparable to the Company over the expected term of the award. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends which will not necessarily be the actual outcome. 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 and is not necessarily indicative of actual exercise patterns.

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, 2013 and 2012:

	2013	2012
Expected volatility (%)	55.8 – 59.6	57.3 – 62.7
Risk free interest rate (%)	0.4 – 1.3	0.3 – 0.6
Expected life of share options (years)	2.5 – 4.8	2.5 – 4.5
Weighted average share price per Spotify SA (USD)	515 – 893	458 – 469

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 9 Cash and cash equivalents

	2013	2012
	£	£
Cash at bank and on hand	<u>9,351,557</u>	<u>11,931,604</u>

Cash and cash equivalents earns interest at floating rates based on daily bank deposit rates.

### Note 10 Trade and other receivables

	2013	2012
Note	£	£
Trade receivables	8,928,377	6,365,016
Prepayments and other debtors	6,379,434	1,840,522
Amounts owed by group undertakings	18 32,540,013	119,055,363
Accrued income	2,552,886	5,804,989
<b>Total</b>	<u><b>50,400,708</b></u>	<u><b>133,065,889</b></u>

Trade receivables are non-interest bearing and generally on 30 days terms.  
The fair value of receivables above approximate to their carrying values.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security.

### Note 11 Property, plant and equipment

	2013	2012
	£	£
<b>Cost</b>		
At 1 January	8,046,641	4,264,391
Additions	7,871,522	3,782,250
Disposals	(2,305,454)	-
Sale of servers	(13,343,211)	-
<b>At 31 December</b>	<u><b>269,498</b></u>	<u><b>8,046,641</b></u>
<b>Accumulated depreciation and impairment</b>		
At January	2,992,708	1,449,044
Depreciation	3,331,551	1,543,664
Disposals	(2,168,302)	-
Sale of servers	(3,980,904)	-
<b>At 31 December</b>	<u><b>175,053</b></u>	<u><b>2,992,708</b></u>
<b>Carrying amount</b>		
<b>Net book value at 31 December</b>	<u><u><b>94,445</b></u></u>	<u><u><b>5,053,933</b></u></u>

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 12 Investments

	2013	2012
	£	£
<b>Cost</b>		
At 1 January	1,195,643	657,017
Additions	4,277	538,626
Sales of investments	(11,570)	
At 31 December	<u>1,188,350</u>	<u>1,195,643</u>
<b>Impairment</b>		
At January	(1,084,530)	(545,904)
Impairment	-	(538,626)
At 31 December	<u>(1,084,530)</u>	<u>(1,084,530)</u>
<b>Net book value at 31 December</b>	<u><u>103,820</u></u>	<u><u>111,113</u></u>

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of Company	Holding	Proportion of voting rights	Country of
Spotify Norway AS	Ordinary shares	100%	Norway
Spotify Spain SL	Ordinary shares	100%	Spain
Spotify GmbH	Ordinary shares	100%	Germany
Spotify SAS	Ordinary shares	100%	France
Spotify Sweden AB	Ordinary shares	100%	Sweden
Spotify Netherlands B.V	Ordinary shares	100%	Holland
Spotify Finland OY	Ordinary shares	100%	Finland
Spotify Australia Pty Ltd	Ordinary shares	100%	Australia

### Note 13 Other non-current assets

	2013	2012
	£	£
<b>Loan to group undertakings:</b>		
Spotify France SAS	1,377,720	1,369,013
Spotify Hong Kong	2,314,458	408,050
<b>Total loan to group undertakings</b>	<u>3,692,178</u>	<u>1,777,063</u>
Long-term deposits	285,374	279,078
<b>Total</b>	<u><u>3,977,552</u></u>	<u><u>2,056,141</u></u>

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 14 Trade and other payables

	2013	2012
	£	£
Trade payables	18,916,912	21,818,359
Amounts due to group undertakings (note 18)	2,540,488	34,345,099
Social security and other taxes	3,224,194	529,378
Accrued expenses	20,385,205	49,398,644
Deferred income	4,228,698	4,450,244
	<u>49,295,497</u>	<u>110,541,724</u>

Trade payables are non-interest bearing and settled on 30 day terms.  
The fair values of the payable amounts above approximate to their carrying amounts.

### Note 15 Issued share capital

	2013	2012
	£	£
<b>Allotted, called up and fully paid</b>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

The total authorised number of ordinary shares is 1,000 shares (2012: 1,000 shares).  
All issued shares are fully paid and have equal rights to vote at general meetings and receive dividends.

### Note 16 Financial risk management objectives and policies

The Company's financial assets and liabilities are as outlined below.

	2013	2012
Note	£	£
<b>Financial assets</b>		
Other non-current assets	3,977,552	2,056,141
Accrued income	2,552,886	5,804,989
Trade Receivables	8,928,377	7,054,714
Amounts owed by group undertakings (note 18)	32,540,012	119,055,362
<b>Total</b>	<u>47,998,827</u>	<u>133,971,206</u>
<b>Financial liabilities</b>		
Trade payables	18,916,912	21,818,359
Amounts owed to group undertakings (current - note 18)	2,540,488	34,345,099
Social security and other taxes	3,224,194	529,378
Accrued expenses	20,385,205	49,398,644
Provision for litigation	142,000	-
Amounts owed to group undertakings (non-current)	28,123,933	58,692,704
	<u>73,332,732</u>	<u>164,784,184</u>

#### Capital management

The capital management of the Company is considered as part of the capital management of the Spotify Technology S.A. Group. The Spotify Technology S.A. Group aims to ensure that the capital in the Spotify Limited Group is sufficient to support its business and maximize shareholder value. The capital of the Company is considered to be total shareholder funds.

The Company's exposure to credit risk, liquidity risk and market risk is managed by the Directors of the Company and has been assessed as set out below.

#### Credit risk

The Company seeks to minimize its exposure to credit risk by only trading with established companies and performing credit checks as appropriate. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 16 Financial risk management objectives and policies (continued)

Credit risk means the risk of financial loss if a customer or contracting party of a financial instrument fails to fulfill his contractual duties. The Company endeavors to ensure that services will only be rendered to customers of an appropriate credit standing. The credit risks, the way they arise as well as the targets, policies and procedures for constant monitoring of the risks and the credit risk assessment methods remained unchanged during the financial year.

Financial assets that were past due or impaired at 31 December 2013 and 2012 respectively are detailed in the tables below.

#### Maturity analysis of trade receivables and accrued revenue as at 31 December 2013 and 31 December 2012:

	Net 2013 £	Impairment 2013 £	Net 2012 £	Impairment 2012 £
Not yet due	8,906,461		9,896,922	-
Overdue 0 – 90 days	1,728,213		2,119,268	385,451
Overdue 91 – 180 days	465,638		382,775	292,589
Overdue 181 – 360 days	335,178		290,427	524,345
Overdue for more than 1 year	45,772	953,766	170,311	852,086
<b>Total</b>	<b>11,481,262</b>	<b>953,766</b>	<b>12,859,703</b>	<b>2,054,471</b>

All "Other non-current assets" are not yet due as of year end and impairment test shows that no assets need to be impaired. Amounts owed by group undertakings are due on demand and no provision is held against these items.

Changes in value adjustments of trade receivables:

	2013 £	2012 £
Carrying amount at 1 January	2,054,471	823,413
Confirmed bad debt	(1,499)	(53,152)
Charge for the year	(1,099,207)	1,284,210
<b>Carrying amount at 31 December</b>	<b>953,765</b>	<b>2,054,471</b>

The carrying amount of financial assets corresponds to the maximum credit risk.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 16 Financial risk management objectives and policies (continued)

Maximum credit risk as at 31 December 2013 and 31 December 2012:

	2013	2012
	£	£
Other non-current assets	3,977,552	2,056,141
Accrued income	2,552,886	5,804,989
Trade Receivables	8,928,377	7,054,714
Amounts owed by group undertakings (note 18)	32,540,013	119,055,363
<b>Total</b>	<b>47,998,828</b>	<b>133,971,207</b>

#### Liquidity risk

The Company does not have any external borrowings but only loans from group undertakings.

All of the financial liabilities of the Company except for the internal loans are due within one year. The internal loans are due within 2-5 years and the creditor is Spotify Finance Ltd.

At 31 December 2013 the Company held cash and cash equivalents amounting to £9,351,557 (2012: £11,931,604)

The tables below show the contractually agreed (undiscounted payments) regarding financial liabilities. All amounts in foreign currencies were translated at the exchange rate at the balance sheet date.

	Carrying amount	Contractual cash flow	Due in 0-12 months
	£	£	£
<b>As of 31 December 2013</b>			
Trade and other payables	45,066,798	45,066,798	45,066,798
Provision for litigation	142,000	142,000	142,000
<b>As of 31 December 2012</b>			
Trade and other payables	164,784,184	164,784,184	164,784,184

  

	Carrying amount	Contractual cash flow	Due in 4 years	Due in 5 years
	£	£	£	£
<b>As of 31 December 2013</b>				
Amounts owed to group undertakings (Interest rate: 12 month EURIBOR + 2)	28,123,933	30,992,574	30,992,574	-
<b>As of 31 December 2012</b>				
Amounts owed to group undertakings (Interest rate: 12 month EURIBOR + 2)	58,692,704	66,146,677	20,069,104	46,077,573

The loan from Spotify AB (2012: £18,933,117) was settled in advance of its due date in 2013 as a result of a restructuring of intercompany balances.

The loan with Spotify Finance Ltd (2012: £39,759,587) was partially settled in advance of its due date in 2013 as a result of a restructuring of intercompany balances.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 16 Financial risk management objectives and policies (continued)

#### Fair value of financial instruments

The tables below show the carrying amounts and fair values of financial instruments according to categories of financial assets and liabilities:

	Carrying amount 2013 £	Fair value 2013 £	Carrying amount 2012 £	Fair value 2012 £
<b>Financial assets</b>				
Trade and other receivables	8,928,377	8,928,377	7,054,714	7,054,714
Other non-current assets	3,977,552	3,977,552	2,056,141	2,056,141
Accrued income	2,552,886	2,552,886	5,804,989	5,804,989
Amounts owed by group undertakings	32,540,013	32,540,013	119,055,363	119,055,363
	£	£	£	£
<b>Financial liabilities</b>				
Trade payables	18,916,912	18,916,912	21,818,359	21,818,359
Amounts due to group undertakings (note 18)	2,540,488	2,540,488	34,345,099	34,345,099
Social security and other taxes	3,224,194	3,224,194	529,378	529,378
Provision for litigation	142,000	142,000	-	-
Accrued expenses	20,385,205	20,385,205	49,398,644	49,398,644

The carrying amounts of financial instruments with maturities in excess of one year correspond to the fair values.

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. At 31 December 2013 and 2012, the Company held no foreign currency hedging instruments.

#### Sensitivity analysis

	Effect of 10% appreciation of Pound £	Effect of 5% appreciation of Pound £	Effect of 5% depreciation of Pound £	Effect of 10% depreciation of Pound £
<b>Assets</b>				
Euro	(2,638,512)	(1,319,256)	1,319,256	2,638,512
USD	(91,686)	(45,843)	45,843	91,686
SEK	(109,639)	(54,820)	54,820	109,639
Other	(8,858)	(4,429)	4,429	8,858
<b>Liabilities</b>				
Euro	1,347,950	673,975	(673,975)	(1,347,950)
USD	674,498	337,249	(337,249)	(674,498)
SEK	11,152	5,576	(5,576)	(11,152)
Other	10,639	5,319	(5,319)	(10,639)

The Company is not directly exposed to interest risk as it is funded by equity from group undertakings.



## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 17 Obligation under operating lease

Operating under leases where the Company is lessee.

The Company has entered into commercial leases on certain properties. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2013 £	2012 £
No later than 1 year	359,542	602,161
After one year but not more than 5 years	-	814,931

### Note 18 Related party transactions

The Company is controlled by Spotify Technology S.A. This Company controls 100% of the Company's shares.

#### (a) Sales

	2013 £	2012 £
Spotify AB	29,030,270	17,795,148
<b>Total</b>	<b><u>29,030,270</u></b>	<b><u>17,795,148</u></b>

#### (b) Purchases

	2013 £	2012 £
Spotify Finance Ltd	1,860,777	1,082,605
<b>Total</b>	<b><u>1,860,777</u></b>	<b><u>1,082,605</u></b>

Goods and services are bought from fellow subsidiary undertakings and subsidiary undertakings controlled by Spotify Technology S.A on normal commercial terms.

Key management includes the Directors, all members of Company Management and the Company Secretary.

The compensation paid or payable to key management for employee services is shown below.

	£	£
Short term employee benefits	<u>145,062</u>	<u>95,625</u>
<b>Total key management compensation</b>	<b><u>145,062</u></b>	<b><u>95,625</u></b>

Daniel Ek is from 1 June 2011 employed by Spotify AB and his remuneration from this date is disclosed in their financial statements as it does not relate to his services as Director for Spotify Limited.

## Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

### Note 18 Related party transactions (continued)

(c) Year end balances arising from sales of goods and purchases of goods/services

Receivables from related parties	2013	2012
	£	£
<b>Receivables from fellow subsidiary undertakings:</b>		
Spotify AB	32,404,311	105,794,817
Spotify USA Inc	1,308	10,476,716
Spotify Japan	4,121	-
Spotify Belgium NV	11,744	1,138
Spotify Singapore	1,186	-
Spotify Hong Kong Limited	97,942	699,435
Spotify Italy	1,801	-
Spotify Services AB	831	-
Spotify Denmark	212	-
<b>Receivables from subsidiary undertakings:</b>		
Spotify Australia PTY Limited	-	1,556,460
Spotify SAS	-	15,795
Spotify Netherlands B.V	15,649	10,008
Spotify Finland OY	908	500,994
<b>Total</b>	<b>32,540,013</b>	<b>119,055,363</b>
Payables from related parties	2013	2012
	£	£
<b>Payables to fellow subsidiary undertakings:</b>		
Spotify Finance Limited	154,622	29,276,298
<b>Payables to parent Company:</b>		
Spotify Technology S.A	-	35,541
<b>Payables to subsidiary undertakings:</b>		
Spotify Germany GmbH	2,321,933	3,911,907
Spotify Spain SL	807	1,121,352
Spotify France	17,497	-
Spotify Norway	14,983	-
Spotify Sweden AB	30,645	-
<b>Total</b>	<b>2,540,487</b>	<b>34,345,098</b>

There are no provisions for related parties receivables in 2013 and 2012.

### Note 19 Ultimate parent undertaking and controlling party

Spotify Limited is a wholly owned subsidiary of Spotify Technology S.A., incorporated in Luxembourg, which is also the ultimate parent undertaking and the controlling entity. It is also the parent undertaking of the largest and smallest group of undertakings of which the Company is a member and for which group financial statements are drawn up. Copies of the financial statements of Spotify Technology S.A can be obtained from the Company secretary at 18, rue de l'Eau L-1449 Luxembourg.