

Spotify Ltd

Reg.nr. 06436047

Report and Financial Statements
for the year 31st December 2014



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 2014

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.

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 and a paid subscription service.

2014 was a transformative year for Spotify. Following the launch of a free Spotify tier on all platforms in December 2013, we successfully transitioned from desktop to mobile in the months that followed, ending with record growth in subscribers in the fourth quarter.

Total revenue increased from £131,378,108 to £159,070,999. This was mainly due to an increase in advertising revenue from £10,205,158 to £11,087,346 and sales of subscriptions that increased from £91,954,279 to £119,157,973. This increase can be attributed to the transition from desktop to mobile as today the majority of new users signing up for Spotify are mobile.

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 increase the number of users and subscribers in the UK. It is crucial that Spotify 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 16 of the financial statements.

On behalf of the board

Angela Claire Mary Watts
Director



Date: 28-9-2015

Report of the Directors for the year ended 31 December 2014

Spotify Ltd. Registered number 06436047

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

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 2015 and 2016 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 loss for the year after taxation of £1,209,630 (2013 £2,574,838 profit). No dividends were declared or proposed for the year ended 31 December 2014.

Directors

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

Daniel Ek
Angela Claire Mary Watts

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

There have been no significant post balance sheet events.

Statement of disclosure to auditors

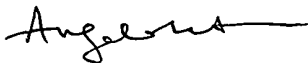
- so far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report of which the auditor is unaware; and
- having made enquiries of the auditor and of each other, 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: 28.9.2015

Statement of Directors' responsibilities

Spotify Ltd. Registered number 06436047

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Independent Auditor's report to the members of Spotify Limited

Spotify Ltd. Registered number 06436047

We have audited the financial statements of Spotify Limited for the year ended 31 December 2014 which comprise 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 Statement of Directors' 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 and of its loss 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of 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

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

Date: *30 September 2015*

Statement of comprehensive income

Spotify Ltd. Registered number 06436047

	Note	2014 £	2013 £
Continuing operations			
Revenue	2	159 070 999	131 387 108
Cost of sales		<u>(124 432 674)</u>	<u>(96 168 700)</u>
Gross profit		34 638 325	35 218 408
Distribution costs		(8 555 301)	(8 853 254)
Administrative expenses	5	(25 593 749)	(20 582 457)
Other operating income		185 029	74 416
Other operating expenses		-	<u>(137 152)</u>
Operating profit	6	674 304	5 719 961
Profit on sale of Intangible asset	3	-	168 614
Finance income		1 736 119	951 548
Finance costs		<u>(733 792)</u>	<u>(4 265 285)</u>
Finance costs - net	4	1 002 327	(3 313 737)
Profit before tax from continuing operations		1 676 631	2 574 838
Income tax charge	7	<u>(2 886 261)</u>	-
(Loss)/Profit for the year		<u>(1 209 630)</u>	<u>2 574 838</u>

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

The (loss)/profit 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

		31 December 2014	31 December 2013
	Note	£	£
ASSETS			
Non-current assets			
Property, plant and equipment	11	4 826 016	94 445
Investments	12	376 576	103 820
Other non-current assets	13	5 007 646	3 977 552
		<u>10 210 238</u>	<u>4 175 817</u>
Current assets			
Cash and cash equivalents	9	-	9 351 557
Trade and other receivables	10	99 979 590	50 400 708
Deferred Tax	7	2 042 838	-
		<u>102 022 428</u>	<u>59 752 265</u>
Total assets		<u>112 232 666</u>	<u>63 928 083</u>
LIABILITIES			
Non-current liabilities			
Provisions		-	(142 000)
Interest bearing loans	19	(28 635 329)	(28 123 933)
Finance leases liabilities	16	(1 602 603)	-
		<u>(30 237 932)</u>	<u>(28 265 933)</u>
Current liabilities			
Cash overdraft		(8 334 380)	-
Trade and other payables	14	(81 660 767)	(49 295 497)
Other current liabilities		(365 137)	(63 449)
Income tax payable		(4 472 282)	-
Finance leases liabilities	18	(810 369)	-
		<u>(95 642 935)</u>	<u>(49 358 946)</u>
Net liabilities		<u>(13 648 202)</u>	<u>(13 696 796)</u>
EQUITY			
Share capital	15	1 000	1 000
Shareholder contributions		14 544 300	14 544 300
Retained earnings		(28 193 502)	(28 242 096)
Total equity		<u>(13 648 202)</u>	<u>(13 696 796)</u>

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 30 were approved by the Board of Directors and authorised for issue on 2015.

They were signed on its behalf by:

Angela Claire Mary Watts
Director



Date: 25.9.2015

**Statement of changes in equity
for the year to 31 December 2014**

Spotify Ltd. Registered number 06436047

Attributable to equity holders of the Company.

	Share capital £	Shareholder contributions £	Retained earnings £	Total £
Balance at 31 December 2012	1 000	14 544 300	(31 505 252)	(16 959 952)
Share based payment charge			688 319	688 319
Total comprehensive profit for the year in 2013			2 574 838	2 574 838
Balance at 31 December 2013	1 000	14 544 300	(28 242 096)	(13 696 796)
Share based payment charge			801 407	801 407
Total comprehensive loss for the year in 2014			(1 209 630)	2 986 104
Change in recognition of deferred tax (note 7)			456 817	456 817
Balance at 31 December 2014	1 000	14 544 300	(28 193 502)	(9 452 468)

**Statement of cash flows
for the year to 31 December 2014**

Spotify Ltd. Registered number 06436047

	Note	2014 £	2013 £
Cash flows from operating activities			
Profit before tax from continuing operations		1 676 631	2 574 838
Depreciation	11	529 764	3 331 550
Loss on disposal of property, plant and equipment		(137 149)	137 152
(Gain) on sale of intangible asset		-	(168 614)
Share based payments transactions cost		801 405	688 319
Movements in Provisions		(142 000)	142 000
Interest expense on long term loans		733 792	-
		<u>3 462 443</u>	<u>6 705 245</u>
Working capital adjustments			
(Decrease)/increase in receivables		(49 578 882)	92 151 491
Increase/(decrease) in payables		32 666 959	(61 185 613)
		<u>(16 911 923)</u>	<u>30 965 878</u>
Net cash flows from operating activities		<u><u>(13 449 479)</u></u>	<u><u>37 671 123</u></u>
Cash flows from Investing activities			
Purchase of property, plant and equipment	11	(5 124 184)	(7 871 522)
Profit from sales of intangible assets		137 149	31 462
Investments		(272 756)	-
Net cash flows used in Investing activities		<u><u>(5 259 791)</u></u>	<u><u>(7 840 060)</u></u>
Financing activities			
Proceeds from Borrowings		-	-
Issued Loans to Intercompany		(1 030 093)	(1 921 411)
Repayments of Borrowings		2 782 368	(30 426 771)
Borrowings		-	-
Borrowings from overdraft		8 334 380	-
Net cash flows from financing activities		<u>10 086 655</u>	<u>(32 348 182)</u>
Effects of exchange rates on cash and cash equivalents		(728 942)	(62 928)
Net decrease in cash and cash equivalents		<u><u>(9 351 557)</u></u>	<u><u>(2 580 047)</u></u>
Cash and cash equivalents at beginning of year		<u>9 351 557</u>	<u>11 931 604</u>
Cash and cash equivalents at end of year		<u><u>-</u></u>	<u><u>9 351 557</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 2015 and 2016 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. 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.

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 linear 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 unrecoupable 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:
- Adverse changes in the payment status of borrowers in the portfolio; and
- National or local economic conditions that

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 2014 and 2013.

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 21.50% (2013: 23.25%).

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 and amended standards and interpretations adopted by the Group

None of the new or revised standards and interpretations effective for the Group on or after January 1, 2014 has any impact on the Financial Statements of the Group.

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 1 Accounting policies (continued)

New standards and interpretations issued but not yet effective

Recently issued new or revised/amended standards and interpretations effective for the Group on or after January 1, 2015, are as follows:

In July 2014, the IASB issued 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. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The group is assessing the full impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers' 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 1 January 2017 and earlier application is permitted. The group is assessing the full impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 16.

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 2 Revenue

The breakdown of the revenue is as follows:

Analysis of revenue by category	2014	2013
	£	£
Sales of advertisements	11 087 346	10 205 158
Sales of subscriptions	119 157 973	91 954 279
Intercompany Services	28 080 865	29 030 270
Other	744 816	197 401
Total	159 070 999	131 387 108

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

	2014	2013
	£	£
Profit/(Loss) on sale of intangibles	-	168 614
Total	0	168 614

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 and costs

	2014	2013
	£	£
Finance Income		
Interest income on financial assets measured at amortised cost	113 804	951 548
Net foreign exchange gains	1 622 315	-
Total	1 736 119	951 548
Finance costs		
Interest expense on financial liabilities measured at amortised costs	(733 792)	(1 560 243)
Net foreign exchange losses	-	(2 705 042)
Total	(733 792)	(4 265 285)
Finance Income and costs	1 002 327	(3 313 737)

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 5 Employee information

	2014	2013
	£	£
Wages and salaries	8 536 718	5 973 323
Social security costs	2 109 330	1 147 661
Share based compensation costs	801 405	688 319
Pension plan costs	823 197	206 721
Total	12 270 650	8 016 023

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

	2014	2013
	£	£
Sales and Marketing	134	84
General and administration	33	36
Total number of employees	167	120

Directors' emoluments during the year were £153,750 (2013: £145,062)

The highest paid director received £153,750 (2013: £72,728). 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 profit

Operating profit is stated after charging/(crediting):

	2014	2013
	£	£
Depreciation on owned assets	529 766	3 331 551
Net foreign exchange (gain)/losses	(1 622 315)	2 705 041
Loss on disposal of property, plant and equipment	-	137 152
Operating lease rentals - Land and Buildings	1 341 375	945 970
Auditor's remuneration - audit	30 000	32 820

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 7 Tax

(a) Tax on profit on ordinary activities

	2014	2013
	£	£
Current income tax:		
Current income tax charge	(247 753)	-
Adjustments in respect of prior years	(4 224 529)	-
Deferred tax:		
Share based payments	943 295	-
Fixed assets	642 726	-
Income tax expense reported in the statement of comprehensive income	<u>(2 886 261)</u>	<u>-</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is different from the average UK standard rate of corporation tax of 21.50% (2013: 23.25%). The differences are explained as follows:

	2014	2013
	£	£
Profit/(loss) on ordinary activities for the year before tax	1 676 631	(1 882 588)
Uplift adjustment		4 457 426
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.49% (2013: 23.25%)	360 361	598 650
<i>Effects of:</i>		
Non-deductible expenses	71 627	339 565
Movement in deferred tax not recognised	(184 235)	(938 215)
Losses utilised by other group companies	-	-
Tax losses carried forward	-	-
Adjustments in respect of prior years	4 224 529	-
Deferred tax	(1 586 021)	-
Total tax charge for the year	<u>2 886 261</u>	<u>-</u>

(c) Factors that may affect future tax charges

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

The Government intends to enact further reductions in the main tax rate down to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. As these tax rates were not substantively enacted at the balance sheet date, the relevant rate reductions are not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

We estimate that the future rate change to 18% would further reduce our UK deferred tax asset recognised at 31 December 2014 from £2,042,838 to £1,838,554. The actual impact will be dependent on our deferred tax position at that time.

(d) Deferred tax

Deferred tax relates to the following:

	Statement of financial position		Statement of Income	
	2014	2013	2014	2013
	£	£	£	£
Share based payments	1 400 112	-	943 295	-
Fixed assets	642 726	-	642 726	-
Net deferred tax assets	<u>2 042 838</u>	<u>-</u>	<u>1 586 021</u>	<u>-</u>

£1,586,021 have been recognized in the Statement of Income and £456,817 have been recognized in Retained Earnings.

There are temporary differences on which no deferred tax asset has been recognised, amounting to £152,170 (2013: £3,119,185)

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 8 Share based payment

Restricted Stock Unit Program (RSUP)

During 2014, the Company implemented a Restricted Stock Unit (RSU) Program that granted RSUs to certain employees (accounted for as equity-settled share-based payment transactions). The RSU transaction charge in 2014 is £18,561 (2013: none)

Under the term of the program, the Company granted two types of awards; Award 1 and Award 2 with a maximum term of 4 or 5 years, and 5 years respectively.

In addition to the time vesting for the Award 2 to fully vest, there are two specified events (IPO or trade sale) that must occur in order for these awards to vest prior to September 1, 2017.

The valuation of the RSA was consistent with the Group's use of the PWERM to value its own shares.

	RSU	
	Number of RSUs	WAEP
Granted	372	1 215
Forfeited	-	-
Outstanding at 31 December 2014	372	1 215

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 2014 is £282,844 (2013: £688,319).

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:

	ESOP	
	Number of options	WAEP
		US\$
Outstanding at 1 January 2013	16 325	321
Granted	2 546	580
Forfeited	(403)	300
Exercised	(507)	272
Expired	(254)	343
Transferred in	285	436
Transferred out	(944)	315
Outstanding at 31 December 2013	17 048	363
Granted	2 862	831
Forfeited	(824)	461
Exercised	(2 838)	331
Expired	(547)	366
Transferred in	709	402
Transferred out	(251)	529
Outstanding at 31 December 2014	16 159	446
Exercisable at 31 December 2013	9 835	315
Exercisable at 31 December 2014	10 908	342

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, 2014 is 2.2 years (2013: 2.8 years).

The weighted average share price for options exercised during 2014 was £446 (2013: £466). The weighted average fair value of options granted during the year ended December 31, 2014 was £246 per option (2013: £189).

The share options outstanding are comprised of:

	2014		2013	
	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	8 365	1,3	10 488	2,2
300 – 500	2 843	2,3	3 913	3,2
500 – 700	2 225	3,4	2 435	4,3
Above 700	2 726	4,2	212	4,3
	<u>16 159</u>		<u>17 048</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, 2014 and 2013:

	2014	2013
Expected volatility (%)	44.2 – 80.1	55.8 – 59.6
Risk free interest rate (%)	0.63 – 1.43	0.4 – 1.3
Expected life of share options (years)	2.5 – 4.8	2.5 – 4.8
Weighted average share price per Spotify SA (USD)	669 – 1215	515 – 893

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 9 Cash and cash equivalents

	2014	2013
	£	£
Cash at bank and on hand	<u>(8 334 380)</u>	<u>9 351 557</u>

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

Note 10 Trade and other receivables

	2014	2013
Note	£	£
Trade receivables	10 329 119	8 928 377
Prepayments and other debtors	1 006 894	6 379 434
Amounts owed by group undertakings	18 83 967 174	32 540 013
Accrued income	4 676 403	2 552 886
Total	<u>99 979 590</u>	<u>50 400 708</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

	2014	2013
	£	£
Cost		
At 1 January	269 498	8 046 641
Additions	5 261 336	7 871 522
Disposals	-	(2 305 454)
Sale of servers	-	(13 343 211)
At 31 December	<u>5 530 834</u>	<u>269 498</u>
Accumulated deprecation and impairment		
At January	175 053	2 992 708
Depreciation	529 765	3 331 551
Disposals	-	(2 168 302)
Sale of servers	-	(3 980 904)
At 31 December	<u>704 818</u>	<u>175 053</u>
Carrying amount		
Net book value at 31 December	<u><u>4 826 016</u></u>	<u><u>94 445</u></u>

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 12 Investments

	2014	2013
	£	£
Cost		
At 1 January	1 188 350	1 195 643
Additions	272 756	4 277
Sale of investments	-	(11 570)
At 31 December	<u>1 461 106</u>	<u>1 188 350</u>
Impairment		
At January	(1 084 530)	(1 084 530)
Impairment	-	(538 626)
At 31 December	<u>(1 084 530)</u>	<u>(1 084 530)</u>
Net book value at 31 December	<u><u>376 576</u></u>	<u><u>103 820</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	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

	2014	2013
	£	£
Loan to group undertakings:		
Spotify France SAS	1 412 768	1 377 720
Spotify Hong Kong	2 477 367	2 314 458
Total loan to group undertakings	<u>3 890 135</u>	<u>3 692 178</u>
Long-term deposits	1 117 511	285 374
Total	<u><u>5 007 646</u></u>	<u><u>3 977 552</u></u>

Notes to the financial statements (continued)

Spotify Ltd. Registered number 06436047

Note 14 Trade and other payables

	2014	2013
	£	£
Trade payables	4 275 157	18 916 912
Amounts due to group undertakings (note 19)	58 460 780	2 540 488
Social security and other taxes	5 762 193	3 224 194
Accrued expenses	6 375 124	20 385 205
Deferred income	6 787 510	4 228 698
	<u>81 660 765</u>	<u>49 295 497</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

	2014	2013
	£	£
Allotted, called up and fully paid 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 (2013: 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.

	2014	2013
	£	£
Financial assets		
Other non-current assets	5 007 646	3 977 552
Accrued income	4 676 403	2 552 886
Trade Receivables	10 329 119	8 928 377
Amounts owed by group undertakings (note 19)	83 967 173	32 540 012
Total	<u>103 980 341</u>	<u>47 998 827</u>
Financial liabilities		
Trade payables	4 275 157	18 916 912
Amounts owed to group undertakings (current - note 19)	58 460 780	2 540 488
Social security and other taxes	5 762 193	3 224 194
Accrued expenses	6 375 124	20 385 205
Provision for litigation	-	142 000
Amounts owed to group undertakings (non-current)	28 635 329	28 123 933
Finance lease liability	2 412 972	-
	<u>105 921 556</u>	<u>73 332 731</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 Spotify Limited 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 2014 and 2013 respectively are detailed in the tables below.

Maturity analysis of trade receivables and accrued revenue as at 31 December 2014 and 31 December 2013:

	Net 2014 £	Impairment 2014 £	Net 2013 £	Impairment 2013 £
Not yet due	9 630 979		8 906 461	
Overdue 0 – 90 days	4 703 905		1 728 213	
Overdue 91 – 180 days	432 396	183 112	465 638	
Overdue 181 – 360 days	238 243	97 778	335 178	
Overdue for more than 1 year	-	381 309	45 772	953 766
Total	15 005 523	662 199	11 481 262	953 766

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:

	2014 £	2013 £
Carrying amount at 1 January	953 765	2 054 471
Confirmed bad debt	(449 788)	(1 499)
Charge for the year	158 224	(1 099 207)
Carrying amount at 31 December	662 199	953 765

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 2014 and 31 December 2013:

	2014	2013
	£	£
Other non-current assets	5 007 646	3 977 552
Accrued income	4 676 403	2 552 886
Trade Receivables	10 329 119	8 928 377
Amounts owed by group undertakings (note 19)	83 967 174	32 540 013
Total	103 980 342	47 998 828

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 2014 the Company held a cash and cash equivalents overdraft amounting to (£8,334,380) (2013: £9,351,557)

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 £
As of 31 December 2014			
Trade and other payables	74 873 257	74 873 257	74 873 257
As of 31 December 2013			
Trade and other payables	45 066 798	45 066 798	45 066 798
Provision for litigation	142 000	142 000	142 000

	Carrying amount £	Contractual cash flow £	Due In 4 years £	Due In 5 years £
As of 31 December 2014				
Amounts owed to group undertakings (Interest rate: 12 month EURIBOR + 2)	28 635 329	31 292 688	31 292 688	-
As of 31 December 2013				
Amounts owed to group undertakings (Interest rate: 12 month EURIBOR + 2)	28 123 933	30 992 574	30 992 574	-

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 2014 £	Fair value 2014 £	Carrying amount 2013 £	Fair value 2013 £
Financial assets				
Trade and other receivables	10 329 119	10 329 119	8 928 377	8 928 377
Other non-current assets	5 007 646	5 007 646	3 977 552	3 977 552
Accrued income	4 676 403	4 676 403	2 552 886	2 552 886
Amounts owed by group undertakings	83 967 174	83 967 174	32 540 013	32 540 013
	£	£	£	£
Financial liabilities				
Trade payables	4 275 157	4 275 157	18 916 912	18 916 912
Amounts due to group undertakings (note 19)	58 460 780	58 460 780	2 540 488	2 540 488
Social security and other taxes	5 762 193	5 762 193	3 224 194	3 224 194
Provision for litigation	-	-	142 000	142 000
Accrued expenses	6 375 124	6 375 124	20 385 205	20 385 205
Amounts owed to group undertakings (non-current)	28 635 329	28 635 329	28 123 933	28 123 933
Finance lease liability	2 412 972	2 412 972	-	-

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

Foreign currency risk

The Company operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to GBP and EUR. From 2013 the Company is no longer exposed to foreign currency risk after entering a new transfer pricing agreement with Spotify AB stating the currency exchange risk to be taken by Spotify AB.

Interest rate risk

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:

	2014 £	2013 £
No later than 1 year	461 930	359 542
After one year but not more than 5 years	-	-

Note 18 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.

	2014 £	2013 £
Gross finance lease liabilities - minimum lease payments:		
No later than 1 year	834 923	-
Later than 1 year and no later than 5 years	1 651 162	-
Later than 5 years	-	-
	<u>2 486 085</u>	<u>-</u>
Future finance charges on finance lease liabilities	(73 113)	-
Present value of finance lease liabilities	<u>2 412 972</u>	<u>-</u>

The present value of finance lease liabilities is as follows:

	2014 £	2013 £
No later than 1 year	810 369	-
Later than 1 year and no later than 5 years	1 602 603	-
Later than 5 years	-	-
	<u>2 412 972</u>	<u>-</u>

Note 19 Related party transactions

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

(a) Sales

	2014 £	2013 £
Parent entity:		
Spotify AB	28 080 865	29 030 270
Total	<u>28 080 865</u>	<u>29 030 270</u>

(b) Purchases

	2014 £	2013 £
Spotify Finance Ltd	2 667 577	1 860 777
Total	<u>2 667 577</u>	<u>1 860 777</u>

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	153 750	145 062
Total key management compensation	<u>153 750</u>	<u>145 062</u>

Daniel Ek is employed by Spotify AB and his remuneration 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 19 Related party transactions (continued)

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

Short term receivables from related parties	2014	2013
	£	£
Receivables from fellow subsidiary undertakings:		
Spotify AB	28 486 347	32 404 311
Spotify USA Inc	17 562	1 308
Spotify Japan	4 121	4 121
Spotify Belgium NV	-	11 744
Spotify Singapore	-	1 186
Spotify Hong Kong Limited	172 975	97 942
Spotify Italy	1 801	1 801
Spotify Services AB	831	831
Spotify Denmark	0	212
Spotify Finance Limited	54 796 129	-
Receivables from subsidiary undertakings:		
Spotify Australia PTY Limited	76 111	-
Spotify SAS	-	-
Spotify Netherlands B.V	-	15 649
Spotify Spain SL	411 296	-
Spotify Finland OY	-	908
Total	83 967 174	32 540 013

Short term payables from related parties	2014	2013
	£	£
Payables to fellow subsidiary undertakings:		
Spotify AB	52 931 159	-
Spotify Finance Limited	3 241 401	154 622
Spotify USA Inc	6 742	-
Spotify Italy	16 705	-
Spotify Poland sp. z o. o.	19 623	-
Payables to parent Company:		
Spotify Technology S.A	-	-
Payables to subsidiary undertakings:		
Spotify Germany GmbH	2 176 025	2 321 933
Spotify Spain SL	-	807
Spotify Finland OY	297	-
Spotify France	18 826	17 497
Spotify Netherlands B.V	95	-
Spotify Norway	15 941	14 983
Spotify Sweden AB	33 967	30 645
Total	58 460 780	2 540 487

Long term payables from related parties

Payables to fellow subsidiary undertakings:		
Spotify Finance Limited	(28 635 329)	(28 123 933)
	(28 635 329)	(28 123 933)

There are no provisions for related parties receivables in 2014 and 2013.

Note 20 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.