

Registered number 06436047

Spotify Limited
Financial statements
for the year
to 31 December 2011

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Spotify Limited

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
James Duffett-Smith

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

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Spotify Limited

Report of the Directors for the year to 31 December 2011

Registered number: 06436047

The Directors present their annual report and the audited financial statements for the year to 31 December 2011

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 million 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 rightsholders, 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 the UK, USA, Sweden, Spain, France, Finland, The Netherlands, Norway, Belgium, Switzerland, Austria and Denmark and the company is looking to expand into further markets

Total revenue grew from £63,167,926 to £95,475,625. This was attributable to an increase in advertising revenue from £18,055,523 to £22,416,420 and sales of subscriptions that grew from £45,069,957 to £72,462,713. As of year end the Total Equity amounts to £7,892,362. Total assets at year end amounts to £99,314,863 where cash is £25,495,738.

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

For the year to 31 December 2011, the Company underwent a period of significant expansion. The Company saw strong user growth across all markets, with the number of paying subscribers growing

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

Significant events

Spotify Ltd sold the Intangible Property related to Spotify's technical platform and trademarks to Spotify AB during the year

Financial risk management objectives and policies

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

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 2011 and 2012 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 has ambitious growth plans. In March 2012, the Group launched in Germany and in May in Australia and New Zealand.

Results and dividends

The Company generated a profit for the year after taxation of £ 21,027,686 (2010: £26,541,588 loss). No dividends were declared.

Directors

The Directors who held office during the year is given below:

Daniel Ek
James Duffett-Smith

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 has ambitious growth plans. In March 2012, the Group launched in Germany and in May the Group launched in Australia and New Zealand.

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 ensuring year will be proposed at the annual general meeting in accordance with the Companies Act 2006

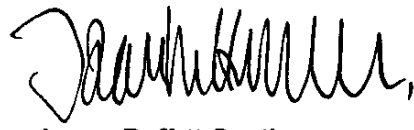
On behalf of the board



Daniel Ek

Director

Date 2012-09-14



James Duffett-Smith

Director

Date 2012-09-14

Statement of Directors' responsibilities

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

We have audited the financial statements of Spotify Limited for the year ended 31 December 2011 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 20. 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 statement set out on page 7, 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 Directors' Report 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 2011 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.

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 and of its loss for the year ended

Spotify Limited

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

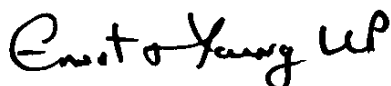
Matters on which we are required to report by exception

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

adequate accounting records have not been kept, 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



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

Date **18 SEP 2012**

**Statement of comprehensive income
for the year to 31 December 2011**

		Year to 31 December 2011	Year to 31 December 2010
	Note	£	£
Continuing operations			
Revenue	3	95,475,625	63,167,926
Cost of sales		<u>(81,846,268)</u>	<u>(64,801,478)</u>
Gross profit /(loss)		13,629,357	(1,633,552)
Distribution costs		(2,556,473)	(1,370,014)
Administrative expenses		(18,643,916)	(23,729,462)
Other operating income		13,192,371	2,796,812
Other operating expenses		<u>(7,681,200)</u>	<u>(2,605,095)</u>
Operating loss	7	(2,059,862)	(26,541,311)
Gain on sale of intangible asset	4	24,366,536	-
Finance costs	5	<u>(1,278,988)</u>	<u>(277)</u>
Profit /(loss) before tax from continuing operations		21,027,686	(26,541,588)
Income tax expense	8	<u>-</u>	<u>-</u>
Profit /(loss) for the year		<u>21,027,686</u>	<u>(26,541,588)</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

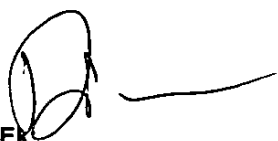
**Statement of financial position
as at 31 December 2011**

	Note	2011 £	2010 £
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,815,347	1,053,357
Investments	13	111,113	100,564
Other non-current assets	14	19,384,016	232,514
		<u>22,310,476</u>	<u>1,386,435</u>
Current assets			
Cash and cash equivalents	9	25,495,738	7,954,094
Trade and other receivables	11	51,276,412	20,046,388
Other current assets		232,237	398,249
		<u>77,004,387</u>	<u>28,398,731</u>
Total assets		<u>99,314,863</u>	<u>29,785,166</u>
Non-Current liabilities			
Amounts due to group undertakings	17	(18,591,837)	-
		<u>(18,591,837)</u>	<u>-</u>
Current liabilities			
Trade and other payables	15	(88,613,913)	(63,098,398)
Other current liabilities		(1,475)	(22,284)
		<u>(88,615,388)</u>	<u>(63,120,682)</u>
Net liabilities		<u>(7,892,362)</u>	<u>(33,335,516)</u>
CAPITAL AND RESERVES			
Share capital	16	1,000	1,000
Shareholder contributions		14,544,300	10,128,832
Retained earnings		(22,437,662)	(43,465,348)
Total equity		<u>(7,892,362)</u>	<u>(33,335,516)</u>

Spotify Limited

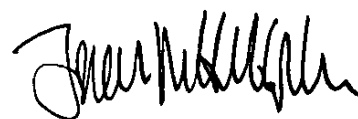
The accompanying notes are an integral part of this Statement of financial position

The financial statements of Spotify Limited, registration number 06436047, on pages 10 to 33 were approved by the board of Directors and authorised for issue on They were signed
on its behalf by



Daniel Ek
Director

Date 2012-09-14



James Duffett-Smith
Director

Date 2012-09-14

**Statement of changes in equity
for the year to 31 December 2011**

Attributable to equity holders of the Company

	Share capital £	Shareholder contributions £	Retained earnings £	Total £
Balance at 1 January 2010	1,000	10,128,832	(16,923,760)	(6,793,928)
Total comprehensive loss for the year	-	-	(26,541,588)	(26,541,588)
Balance at 31 December 2010	1,000	10,128,832	(43,465,348)	(33,335,516)
Total comprehensive profit for the year	-	-	21,027,686	21,027,686
Contribution received in the year	-	4,415,468	-	4,415,468
Balance at 31 December 2011	1,000	14,544,300	(22,437,662)	(7,892,362)

**Statement of cash flows
for the year to 31 December 2011**

	Year to 31 December 2011 £	Year to 31 December 2010 £
Cash flows from operating activities		
Profit/(Loss) before tax from continuing operations	21,027,686	(26,541,588)
Depreciation	920,210	450,402
Loss on disposal of property, plant and equipment	59,314	393,322
	<u>22,007,210</u>	<u>(25,697,864)</u>
Working capital adjustments		
(Increase) in receivables	(30,998,844)	(8,673,289)
Increase in payables	25,494,707	41,971,526
	<u>(5,504,137)</u>	<u>33,298,237</u>
Income tax paid	-	-
Net cash flows from operating activities	<u>16,503,073</u>	<u>7,600,373</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,741,514)	(1,466,085)
Payments in respect of investments	(10,549)	(16,125)
Net cash flows used in investing activities	<u>(2,752,063)</u>	<u>(1,482,210)</u>
Financing activities		
Issued loans	(19,151,502)	-
Borrowings	18,591,837	-
Received shareholder contributions	4,415,468	-
Net cash flows from financing activities	<u>3,855,803</u>	<u>-</u>
Effects of exchange rates on cash and cash equivalents	(65,169)	(10,944)
Net increase in cash and cash equivalents	<u>17,541,644</u>	<u>6,107,219</u>
Cash and cash equivalents at beginning of year	<u>7,954,094</u>	<u>1,846,875</u>
Cash and cash equivalents at end of year	<u>25,495,738</u>	<u>7,954,094</u>

**Notes to the financial statements
for the year to 31 December 2011**

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

The address of the registered office is given on page 2

The principal activities of the Company are described on page 4

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 2012 and 2013 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.

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

New standards adopted in the year

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

IFRS 7 Financial Instruments — Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The amendment did not result in any significant changes on the position or performance of the Company.

IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The amendment did not result in any significant changes on the position or performance of the Company.

Standards issued but yet not effective

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. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Financial Instruments Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosures about financial assets that have been transferred, but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has therefore no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's 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. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. 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.

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

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.

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.

(b) Sale of subscriptions -

Subscription revenue is based on the actual number of activated Premium subscriptions and recognised on a straight-line basis over the life of the subscription. Revenue from the 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.

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

Royalty cost accounting

The royalty costs consists of royalty fees to record labels and other right holders and are calculated based on actual revenue outcome, sale of advertisements and sale of subscriptions

The company accounts for royalty costs as accrued royalty costs and allocates the costs together with the actual revenue outcome on a monthly basis

Cash and cash equivalents

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

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

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.

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 is evidence 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.

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

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.

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 26.5% (2010: 28%).

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.

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.

Notes to the financial statements for the year to 31 December 2011 (continued)

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.

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 that correlate with defaults on the assets in the portfolio

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.

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
for the year to 31 December 2011 (continued)**

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.

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 consolidated financial statements, are disclosed in note 2.

2 Information about key sources of estimation uncertainty and judgments

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.

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

3 Revenue

The breakdown of the revenue is as follows

Analysis of revenue by category	Year to 31 December 2011 £	Year to 31 December 2010 £
Sales of advertisements	22,416,420	18,055,523
Sales of subscriptions	72,462,713	45,069,957
Other	596,492	42,446
Total	95,475,625	63,167,926

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

4 Gain of sale of intangible assets

The gain on sale of intangible asset relates to the sale of the Intangible Property related to Spotify's technical platform and trademarks to a fellow subsidiary undertaking and it was previously held at nil value

5 Finance costs

	Year to 31 December 2011 £	Year to 31 December 2010 £
Interest expense on financial liabilities measured at amortised costs	(733,084)	(277)
Impairment of shares in subsidiary	(545,904)	-
Finance costs	(1,278,988)	(277)

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

6 Employee information

	Year to 31 December 2011 £	Year to 31 December 2010 £
Wages and salaries	3,181,888	1,772,195
Social security costs	406,656	204,328
Total	3,588,544	1,976,523

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

	2011 No	2010 No
Sales and marketing	52	33
General and administration	12	11
Total number of employees	64	44

Director's emoluments during the year were £116,079 (2010: £202,494)
The highest paid director received £85,333 (2010: £114,934). See further in note 19.

7 Operating loss

Operating loss is stated after charging/(crediting)

	Year to 31 December 2011 £	Year to 31 December 2010 £
Depreciation on owned assets	920,210	450,402
Net foreign currency difference	2,630,840	193,125
Loss on disposal of property, plant and equipment	59,314	393,322
Operating lease rentals - Land and Buildings	646,582	497,665
Auditor's remuneration - audit	30,000	35,000

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

8 Tax

(a) Tax on loss on ordinary activities

There is no current or deferred tax charge/credit in 2011 and 2010

Further reductions in the UK corporation tax rate have been substantively enacted in the year. The main rate of corporation tax was reduced from 28% to 26% effective from 1 April 2011. Any provision for deferred tax on timing differences as at 31 December 2011 would have been calculated at 25%, the corporation tax rate effective from 1 April 2012 as substantively enacted as at 31st December 2011. The effect of further planned reductions to the main rate of corporation tax by a further one per cent from 1 April 2012 to 24%, and one per cent per annum to 22 per cent by April 1, 2014, would not be expected to have a material impact on the Company's net assets and will be applied in the Company's financial statements as the legislation is substantively enacted.

(b) Factors affecting the tax charge for the year

A reconciliation between the actual tax charge and the tax charge at the standard UK rate of corporation tax is shown below

	Year to 31 December 2011	Year to 31 December 2010
	£	£
Profit/(loss) before tax	21,027,686	(26,541,588)
Tax at standard UK rate of 26.5% (2010: 28%)	5,572,337	(7,431,645)
Non-deductible expenses	90,948	43,898
Losses carried forward	-	7,387,747
Losses utilised	(5,663,285)	-
Tax charge on profit/(loss) for the year	-	-

(c) Deferred tax

No deferred tax asset has been recognised on the tax losses carried forward because 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 £25,825,424 (2010: £43,145,092).

9 Cash and cash equivalents

	2011	2010
	£	£
Cash at bank and on hand	25,495,738	7,954,094

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

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

10 Financial instruments

	2011	2010
	£	£
Financial assets		
Financial assets measured at cost less impairment	<u>32,157,502</u>	<u>8,128,512</u>
Financial liabilities		
Financial liabilities measured at cost	<u>40,817,874</u>	<u>21,614,747</u>

11 Trade and other receivables

	2011	2010
	£	£
Trade receivables	11,882,831	6,387,445
Prepayments and other debtors	6,450,231	177,447
Amounts owed by group undertakings (note 19)	31,622,288	11,143,992
Social security and other taxes	662,644	1,766,463
Accrued income	658,418	571,041
	<u>51,276,412</u>	<u>20,046,388</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.

12 Property plant and equipment

Cost	£
At 1 January 2011	1,589,580
Additions	2,741,514
Disposals	<u>(66,703)</u>
At 31 December 2011	<u>4,264,391</u>

Accumulated depreciation and impairment

At January 2011	536,223
Depreciation	920,210
Disposals	<u>(7,389)</u>
At 31 December 2011	<u>1,449,044</u>

Carrying amount

Net book value at 31 December 2011	<u>2,815,347</u>
Net book value at 1 January 2011	<u>1,053,357</u>

**Notes to the financial statements
for the year to 31 December 2011**

13 Investments

	Subsidiary undertakings £
Cost	
At 1 January 2011	100,564
Additions	556,453
At 31 December 2011	<u>657,017</u>
Impairment	
At January 2011	-
Impairment	(545,904)
At 31 December 2011	(545,904)
Net book value at 31 December 2011	<u>111,113</u>
Net book value at 1 January 2011	<u>100,564</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 and shares held	Country of incorporation
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 Hong Kong Ltd	Ordinary shares	100%	Hong Kong
Spotify Denmark Aps	Ordinary shares	100%	Denmark
Spotify Australia Pty Ltd	Ordinary shares	100%	Australia

The business of these companies is to buy advertising inventory from Spotify Limited and sell advertisements to the local markets

The additions for year 2011 comprise start up costs in respect of the subsidiaries Spotify Finland OY, Spotify Hong Kong Ltd, Spotify Denmark Aps and Spotify Australia Pty Ltd

**Notes to the financial statements
for the year to 31 December 2011**

14 Other non current assets

	2011	2010
	£	£
Loan to group undertakings		
Spotify Finland OY	496,111	-
Spotify France SAS	1,369,013	-
Spotify Germany GmbH	130,579	-
Spotify Netherlands B V	717,855	-
Spotify Spain SL	8,488,382	-
Spotify USA Inc	7,919,231	-
Long term deposits	262,845	232,514
	<u>19,384,016</u>	<u>232,514</u>

15 Trade and other payables

	2011	2010
	£	£
Trade payables	17,782,618	7,346,341
Amounts due to group undertakings (note 19)	40,417,394	35,744,149
Social security and other taxes	-	104,497
Accrued expenses	23,035,258	14,268,406
Deferred income	7,378,643	5,635,005
	<u>88,613,913</u>	<u>63,098,398</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

	Issued share capital	
	2011	2010
	£	£
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 (2010 1,000 shares)

All issued shares are fully paid and have equal rights to vote at general meetings and receive dividends

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

17 Financial risk management objectives and policies

The Company's financial liabilities are trade and other payables and financial assets are trade and other receivables

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.

Financial assets that were past due or impaired at 31 December 2011 or 2010 are detailed in the tables below.

At 31 December 2011 the company held cash and cash equivalents amounting to £25,495,738 (2010: £7,954,094).

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.

Maturity analysis of trade receivables as at 31 December 2011 and 31 December 2010

	Net 31/12/2011 £	Impairment 2011 £	Net 31/12/2010 £	Impairment 2010 £
Not yet due	7,521,311	-	3,887,602	-
Overdue 0 – 90 days	3,901,023	26,032	1,746,846	18,771
Overdue 91 – 180 days	228,495	186,803	444,598	109,221
Overdue 181 – 360 days	-	259,909	248,863	96,377
Overdue for more than 1 year	-	350,669	59,536	47,587
	11,650,829	823,413	6,387,445	271,956

All "Other financial assets" are Not yet due as of yearend and impairment test shows that no assets need to be impaired.

Changes in value adjustments of trade receivables

	2011 £	2010 £
Carrying amount at 1 January	271,956	27,457
Confirmed bad debt	(4,033)	(27,457)
Provision in year	823,411	271,956
Carrying amount at 31 December	1,091,334	271,956

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

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

Maximum credit risk as at 31 December 2011 and 31 December 2010

	31 December 2011 £	31 December 2010 £
Other current assets	232,237	398,249
Other non-current assets	19,384,016	232,514
Accrued receivables from uncompleted contracts	658,418	571,041
Trade Receivables	11,882,831	6,926,708
	<u>32,157,502</u>	<u>8,128,512</u>

Liquidity risk

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

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 AB

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

31 December 2011	Carrying amount £	Contractual cash flow £	Due in 0-12 months £
Trade and other payables	88,613,913	88,613,913	88,613,913
31 December 2010	Carrying amount £	Contractual cash flow £	Due in 0-12 months £
Trade and other payables	63,098,398	63,098,398	63,098,398
31 December 2011	Carrying amount £	Contractual cash flow £	Due in 2-5 years £
Amounts to group undertakings Interest rate 12 month EURIBOR + 2	18,591,837	22,251,640	22,251,640
31 December 2010	Carrying amount £	Contractual cash flow £	Due in 2-5 years £
Amounts to group undertakings	-	-	-

**Notes to the financial statements
for the year to 31 December 2011 (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 31/12/2011 £	Fair value 31/12/2011 £	Carrying amount 31/12/2010 £	Fair value 31/12/2010 £
Financial assets				
Accrued receivables from uncompleted contracts	658,418	658,418	571,041	571,041
Trade and other receivables	11,882,831	11,882,831	6,926,708	6,926,708
Other current assets	232,237	232,237	398,249	398,249
Other non-current assets	19,384,016	19,384,016	232,514	232,514
Amounts owed by group undertakings	31,622,288	31,622,288	11,143,992	11,143,992
Financial liabilities	£	£	£	£
At amortized cost				
Trade and other payables	40,817,874	40,817,874	21,614,747	21,614,747
Amounts to group undertakings	59,009,231	59,009,231	35,744,149	35,744,149

The carrying amounts of financial instruments with maturities up to one year correspond to the fair values

Foreign currency risk

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 2011 and 2010, 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
Assets				
Euro	(10,618,519)	(5,309,259)	5,309,259	10,618,519
USD	(552,436)	(276,218)	276,218	552,436
SEK	(662,210)	(331,105)	331,105	662,210
Liabilities				
Euro	(8,574,572)	(4,287,286)	4,287,286	8,574,572
USD	(11,280)	(5,640)	5,640	11,280
SEK	(3,348)	(1,674)	1,674	3,348

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
for the year to 31 December 2011 (continued)**

18 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

	31 December 2011 £	31 December 2010 £
No later than 1 year	302,019	188,437
After one year but not more than 5 years	753,752	753,752

19 Related party transactions

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

The following transactions were carried out with related parties

(a) Sales of advertisements

	2011 £	2010 £
Transactions with subsidiary undertakings		
Spotify Norway AS	1,825,750	1,359,784
Spotify Spain SL	1,533,921	1,638,864
Spotify SAS	287,306	438,186
Spotify Sweden AB	3,607,104	3,240,608
Spotify Netherlands B V	348,352	213,634
	<u>7,602,434</u>	<u>6,891,076</u>

(b) Sales of services

	2011 £	2010 £
Transactions with subsidiary undertakings		
Spotify SAS	-	265,790
Spotify Norway AS	-	939,493
Spotify Spain SL	-	1,124,199
Spotify Sweden AB	-	2,183,535
Transactions with fellow subsidiary undertakings		
Spotify AB	7,734,271	-
	<u>7,734,271</u>	<u>4,513,017</u>

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

(c) Purchase of goods and services

	2011 £	2010 £
Purchase of goods from fellow subsidiary undertakings		
Spotify AB	39,543,214	9,041,891
Purchase of services from fellow subsidiary undertakings		
Spotify AB	1,503,551	5,969,979
Spotify Finance Ltd	476,260	-
Spotify USA Inc	875,291	-
Purchase of services from subsidiary undertakings		
Spotify SAS	375,027	701,162
Spotify Norway AS	377,825	600,141
Spotify Spain SL	312,945	672,763
Spotify Sweden AB	903,583	2,085,114
Spotify Netherlands B V	178,174	264,932
	<u>44,545,870</u>	<u>19,335,982</u>

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

(d) Key management compensation

Key management includes the Director, all members of Company Management and the Company Secretary
The compensation paid or payable to key management for employee services is shown below

	2011 £	2010 £
Short term employee benefits	<u>116,079</u>	<u>202,494</u>
Total key management compensation	<u>116,079</u>	<u>202,494</u>

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

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

	2011 £	2010 £
Receivables from related parties		
Receivables from fellow subsidiary undertakings		
Spotify AB	31,203,441	-
Spotify Finance Limited	-	-
Spotify USA Inc	311,780	1,035,476
Receivables from subsidiary undertakings		
Spotify Norway AS	-	1,902,892
Spotify Spain SL	53,898	3,768,658
Spotify SAS	28,262	805,783
Spotify Sweden AB	-	3,442,449
Spotify Netherlands B V	-	169,687
Spotify Germany GmbH	5,141	19,047
Spotify Austria GmbH	234	-
Spotify Finland OY	19,532	-
	<u>31,622,288</u>	<u>11,143,992</u>

**Notes to the financial statements
for the year to 31 December 2011 (continued)**

Payables to related parties

Payables to fellow subsidiary undertakings		
Spotify AB	-	35,289,345
Spotify Finance Limited	40,208,637	-
Payables to parent company		
Spotify Technology S A	-	454,804
Payables to subsidiary undertakings		
Spotify Spain SL	208,757	-
	<u>40,417,394</u>	<u>35,744,149</u>

There are no provisions for related parties receivables in 2011 and 2010

20 Ultimate parent undertaking and controlling party

Spotify Limited is a wholly owned subsidiary of Spotify Technology S A. The ultimate parent undertaking and controlling party of Spotify Limited is Spotify Technology S A, a company incorporated in Luxembourg. 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.

THESE ACCOUNTS
FORM PART OF THE
GROUP ACCOUNTS
OF COMPANY
No 064.36.047...

Spotify Technology S.A.
18, rue de L'Eau
L- 1449 Luxembourg

R.C.S. Luxembourg B 123 052

Consolidated financial statements as at 31 December 2011
and
Independent auditor's report

Spotify Technology S.A.

The company is incorporated in Luxembourg.

Company number: B 123 052

Registered office: 18, Rue de l' Eau
L-1449, Luxembourg

Company secretary: 22, Avenue Marie - Thérèse
L-2132, Luxembourg

Current directors: Martin Lorentzon
Daniel Ek
Par-Jorgen Parsson
Sean Parker

Auditors: Ernst & Young SA
7, Rue Gabriel Lippmann, Parc d'Activite Syrdall 2
L-5365 Munsbach
Luxembourg



SPOTIFY TECHNOLOGY S.A.
(Anc SPOTIFY TECHNOLOGY S.à r.l.)
SOCIETE ANONYME
REGISTERED OFFICE: 2 RUE CARLO HEMMER,
L-1734 LUXEMBOURG

R.C.S. LUXEMBOURG B 123 052

(the "Company")

**Management report from the Board of Directors on the consolidated financial statements
for the year ended December 31, 2011**

Luxembourg, April 23 2012

Dear Shareholder,

We have called you to a General Meeting with a view to submitting for your approval the consolidated financial statements for the year ended December 31, 2011, which are annexed to this report as an essential component.

It is the second set of consolidated financial statements prepared by the management of the Company.

Principal activities

The principal activity of the Group 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 Group aggregates content from our various rightholders, distributes to consumers through our 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 available in the UK, USA, Switzerland, Sweden, Spain, France, Finland, the Netherlands, Norway, Belgium, Austria, Denmark and Germany, and the Group is looking to expand into further markets. These new markets may include Australia and New Zealand, Canada, and countries in Asia and South America.

The Spotify Group had over 32,8m registered users across Europe and USA at the end of 2011, where over 2,6m were paid subscribers

Principal risks and uncertainties

The Group'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. In a low-margin business dependent on rapid growth to cover fixed costs, it is crucial that the Group continue to penetrate existing and new markets as quickly as possible and continues to build on the success which has seen the Group emerge as the largest music subscription service worldwide. Offering free, legal access to one of the world's largest music libraries requires ongoing licensing agreements with rightsholders. Further information on risks and uncertainties is given in note 20 of the financial statements.

Going concern

Having reviewed the Group's liquid resources and the Group's 2012 and 2013 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.

Foreseeable evolution of the Group

The Group plans to continue its present growth into new markets. For the time being a launch into the Australian, New Zealand and Canadian markets are planned further consolidating Spotify's position as the largest music streaming service of its kind in the world.

Changes in the environment in which the entity operates

The environment in which the Group operates has during the period, in general, developed in a positive direction. The relationship and alignment with rights holders has generally improved, which is witnessed by the renewal of licenses in existing markets as well as by the acquisition of licenses to operate the Group's service in new markets. The same trend is witnessed in the ad sales market where the Group enjoys stronger partnerships with brands and media agencies. The interest in our service remains very strong. To cover losses during the expansion phase, the Group has been financed by existing and new equity owners. We cannot exclude the need or desire to raise more funds in the future. The primary source of any such additional capital would be equity and thus, we expect the current (2011-12-31) ratio of liabilities to equity, 5,3, to remain in the same order of magnitude.

Research and development

The Group continues to invest in research and development in order to improve the site, existing products and to create new ones. All intangible assets of the group consist of internally generated assets referring to the investment done in the development of the Spotify site.

Miscellaneous

Spotify Netherlands BV, Spotify USA Inc and Spotify Ltd were involved in patent litigation in the Netherlands and other territories during 2011. The dispute was settled on favourable terms during January 2012.

Results and dividends

Annual overview	2011	2010
Turnover	€ 187 832 866	€ 73 851 300

The Group generated a loss for the year after taxation of € -45,423,069 (year ended 31 December 2010: € -28,451,415) No dividends were declared

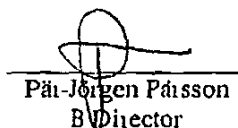
During the year 2011, the company has carried out all its activities in line with its purpose. The total of the consolidated balance sheet as at 31.12.2011 stands at EUR 162,800,009 and the company has made a consolidated loss of EUR 45,423,069.

The Company showed a gross profit of € 4,321,319 compared to a gross loss last year of € -2,938,151. This was attributable to an increase in sales of subscriptions from €52,583,119 to €156,892,221 and an increase in advertising revenue that grew from €21,130,714 to €27,599,708. The Operating loss for the year ending 2011 amounts to € -46,847,882 compared to € -21,915,487 last year. This is explained by a lot of investments that have been made during the year, mostly in personnel, international expansion and engineering.

We hope that you will approve the consolidated financial statements as they are presented and we should like to thank you for the confidence that you have shown in us throughout this financial year.



Martin Lorentzon
A Director



Pär-Jörgen Pålsson
B Director



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TVA LU 16163074

Independent auditor's report

To the Shareholders of
Spotify Technology S.A.
Société Anonyme
18, rue de l'eau
L-1449 Luxembourg

Report on the consolidated financial statements

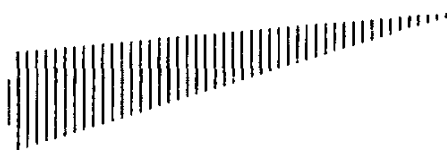
Following our appointment by the General Meeting of the Shareholders dated 30 June 2011, we have audited the accompanying consolidated financial statements of Spotify Technology S.A., which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



ERNST & YOUNG

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

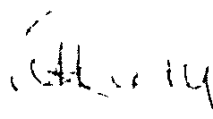
Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Spotify Technology S.A. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé


Aine HEARTY

Luxembourg, 26 April 2012

**Consolidated income statement
for the year ended 31 December 2011**

	Note	2011 €	2010 €
Continuing operations			
Revenue	2	187 832 866	73 851 300
Cost of sales	3	<u>-183 511 547</u>	<u>-76 789 451</u>
Gross loss/profit		4 321 319	-2 938 151
Personnel cost	4	-24 442 046	-8 823 869
Other external expenses	5	-22 503 141	-8 056 644
Depreciation	8,9	<u>-4 224 014</u>	<u>-2 096 823</u>
		-51 169 201	-18 977 336
Operating loss		<u>-46 847 882</u>	<u>-21 915 487</u>
Finance income		3 875 486	29 419
Finance costs		<u>-1 551 312</u>	<u>-5 088 210</u>
Finance costs - net	6	2 324 174	-5 058 791
Loss before tax		-44 523 708	-26 974 278
Income tax expense	7	<u>-899 361</u>	<u>-1 477 137</u>
Loss for the year		<u>-45 423 069</u>	<u>-28 451 415</u>
Attributable to			
Owners of the parent		-45 423 069	-28 451 415
Non-controlling interests		<u>-</u>	<u>-</u>
		-45 423 069	-28 451 415

The accompanying notes are an integral part of these consolidated financial statements

**Consolidated statement of comprehensive income
for the year ended 31 December 2011**

	Note	2011 €	2010 €
Loss for the year		<u>-45 423 069</u>	<u>28 451 415</u>
Other comprehensive income			
Exchange differences on translation foreign operations		-592 062	4 989 366
Other comprehensive income for the year		<u>-592 062</u>	<u>4 989 366</u>
Total comprehensive income for the year		<u>-46 015 131</u>	<u>23 462 049</u>
Attributable to			
Owners of the parent		-46 015 131	-23 462 049
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>-46 015 131</u>	<u>-23 462 049</u>

The accompanying notes are an integral part of these consolidated financial statements

Consolidated statement of financial position
as at 31 December 2011

	Note	2011 €	2010 €
Assets			
Non-current assets			
Intangible assets	8	4 014 000	2 492 000
Equipment	9	5 717 575	1 688 571
Other non-current assets	10	<u>1 370 085</u>	<u>489 681</u>
		11 101 660	4 670 252
Current assets			
Trade and other receivables	11	24 387 576	13 537 783
Prepayments	11	4 058 265	1 698 679
Other current assets	11	18 981 010	2 108 686
Cash and cash equivalents	12	<u>104 271 498</u>	<u>47 251 972</u>
		151 698 349	64 597 120
Total assets		<u>162 800 009</u>	<u>69 267 372</u>
Equity and liabilities			
Equity			
Share capital	13,14	72 975	62 303
Other paid in capital	13,14	156 093 646	54 150 164
Other reserves	16	6 277 191	6 869 253
Retained earnings		<u>-93 918 084</u>	<u>-50 109 445</u>
Total equity		<u>68 525 728</u>	<u>10 972 275</u>
Deferred tax		1 123 920	697 760
Current liabilities	15		
Trade and other payables		24 779 745	9 342 917
Other current liabilities		5 273 303	22 022 986
Income tax payable		1 244 380	891 352
Deferred revenue		19 849 897	7 005 478
Other accrued expenses and deferred income		<u>42 003 036</u>	<u>18 334 604</u>
		93 150 361	57 597 337
Total liabilities		<u>93 150 361</u>	<u>57 597 337</u>
Total equity & liabilities		<u>162 800 009</u>	<u>69 267 372</u>

The accompanying notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

€	Share capital	Other paid in Capital	Other Reserves (Note 16)	Retained earnings	Total
12 months ended					
31 December 2010					
1 January 2010	59 253	54 034 650	203 366	-21 791 232	32 506 037
Loss attributable to shareholders of parent company				-28 451 415	-28 451 415
Other comprehensive income			4 989 366		4 989 366
Total Comprehensive income			4 989 366	-28 451 415	-23 462 049
Transactions with Owners					
Equity component of shareholder loan			1 676 521		1 676 521
Options exercised	3 050	627 064			630 114
Repurchased and cancelled warrants		-461 925			-461 925
Cost related to new issue of shares		-49 625			-49 625
Share based payment				133 202	133 202
31 December 2010	62 303	54 150 164	6 869 253	-50 109 445	10 972 275
12 months ended					
31 December 2011					
1 January 2011	62 303	54 150 164	6 869 253	-50 109 445	10 972 275
Loss attributable to shareholders of parent company				-45 423 069	-45 423 069
Other comprehensive income			-592 062		-592 062
Total Comprehensive income			-592 062	-45 423 069	-46 015 131
Transactions with Owners					
Equity component of shareholder loan					0
Options exercised	45	109 395			109 440
Repurchased and cancelled warrants		-491 012			-491 012
Issue of new shares	10 627	102 325 099			102 335 726
Cost related to new issue of shares					0
Share based payment				1 614 430	1 614 430
31 December 2011	72 975	156 093 646	6 277 191	-93 918 084	68 525 728

Consolidated statement of cash flows

for the year ended 31 December 2011

		2011 €	2010 €
	Note		
Operating activities			
Loss before tax		-44 523 708	-26 974 278
<i>Non-cash adjustment to reconcile profit before tax to net cash flows</i>			
Foreign exchange gain/ losses	6	-3 703 560	4 946 824
Depreciation of equipment	9	1 372 014	702 823
Depreciation of intangible assets	8	2 852 000	1 394 000
Share-based payment transaction expense	14	1 614 430	133 202
Loss on disposal of equipment	9	71 009	33 127
Finance income	6	-171 926	-29 419
Finance costs	6	1 551 312	141 386
<i>Working capital adjustments</i>			
Increase in trade and other receivables and prepayments	11	-30 962 107	437 643
Increase in trade and other payables	15	57 955 782	13 349 770
Interest received	6	84 939	29 419
Income tax paid	7	-120 582	-59 482
Net cash flows from operating activities		-13 980 397	-5 894 985
Investing activities			
Purchase of equipment	9	-5 461 400	-1 637 756
Development expenditures	8	-4 374 000	-3 294 000
Net cash flows used in investing activities		-9 835 400	-4 931 756
Financing activities			
Proceeds from exercise of share options		-491 022	641 210
Proceeds from repurchased share options		-	-461 650
Transaction costs of share issue		-	-60 996
Issue of new shares		79 906 301	-
Loan from shareholders		-	22 538 865
Interest paid	6	-	-39 498
Net cash flow from/(used in) finance activities		79 415 279	22 617 931
Net increase in cash and cash equivalents		55 599 482	11 791 190
Net foreign exchange difference		1 420 044	991 088
Cash and cash equivalents at 1 January	12	47 251 972	34 469 694
Cash and cash equivalents at 31 December	12	104 271 498	47 251 972

Notes to the consolidated financial statements

1 Accounting policies

Spotify Technology S A is a private limited company incorporated and domiciled in Luxembourg

The address of the registered office is 18, Rue de l'Eau, L-1449, Luxembourg

The principal activities of the Group are that of a music management platform providing instant access to more than 15 million songs 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.

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorized for issue with a resolution of the directors on 23 April 2012. Under Luxembourg law the financial statements are approved by the shareholders at the annual general meeting.

The consolidated financial statements of Spotify Technology S A 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 the use in the European Union "IFRS"

The consolidated financial statements are prepared under the historical cost convention except for financial instruments accounted for at fair value and in accordance with IFRS. 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 Euro.

Comparative figures

Certain comparative figures have been reclassified to be in accordance with current year's presentation. There has been no impact on the profit or loss for the year as a result of the reclassifications."

Going concern

Having reviewed the Group's liquid resources and the Group's 2012 and 2013 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.

Basis of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

Accounting and valuation policies

When preparing the financial statements the amendments to the current IAS, IFRS and/or interpretations and the newly published Standards and Interpretations were taken into consideration, to the extent they were published in the Official Law Gazette of the European Union by 31 December 2011 and in force as at that date

Policy for statement of cash flows

The statement for cash flow has been prepared using the indirect method

New standards and interpretations issued but not early adopted, which are applicable to the Group

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 Group's financial position or performance

The amendment becomes effective for annual periods beginning on or after 1 July 2012

IAS 12 Income Taxes - Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value

The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on the sale basis of the asset

The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosures about financial assets that have been transferred but not derecognised, to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment became effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has therefore no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's 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. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27

This standard becomes effective for annual periods beginning on or after January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interest in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method

This standard becomes effectively for annual periods beginning on or after January 2013

IFRS 12 Disclosure of Involvement in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required

This standard becomes effectively for annual periods beginning on or after January 2013

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. The Group is currently assessing the impact that this standard will have on the financial position and performance

This standard becomes effectively for annual periods beginning on or after January 2013

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group

New standards and interpretations issued but not yet effective, that will not affect the Group

- *IAS 27 Separate Financial Statements (as revised 2011)*
- *IAS 28 Investments in Associates and Joint Ventures (as revised 2011)*

Business Combinations

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill. Expenses in connection with business combinations are charged to the income statement as they are incurred.

Foreign currency translation

(a) Functional and presentation currency

The consolidated financial statements are presented in Euro which is the company's functional and the Group's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional 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.

Foreign exchange gains and losses that relate to the borrowing and cash and cash equivalents are presented in the consolidated income statement with "Finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income.

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

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into euro as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date.
- (ii) Income and expenses for each statement of comprehensive income are translated at the average.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the operation and translated at the closing rate at each reporting date.

(d) Hedge of a net investment in a foreign operation

Changes in the fair value of a derivative or non-derivative instrument that is designated as and meets all the required criteria for a hedge of a net investment are recorded in the currency exchange reserve to the extent that it is deemed to be an effective hedge. The ineffective portion is recognised in the income statement as finance revenue or cost.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting, or the Group revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The Group formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes allocating all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Group also formally assesses, both at the inception of the hedge and on an on-going basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Group will discontinue hedge accounting prospectively.

Revenue recognition

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

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

Sale of advertisements

The Group sells advertisements on its service. Advertising revenues are deferred and recognised over the period in which the advertisements are 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.

Sales of subscriptions

Subscription revenue is based on the actual number of activated Premium subscriptions and recognised on a straight-line basis over the life of the subscription. Revenue from the 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 day of sale.

Sale of partner subscriptions

Revenue from the partner sales premiums certificates is recognized 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 recognized at the date for expiration. The certificate expires within 12 months from date of sale.

Downloads

A download is an action allowing a user to receive a permanent digital media file for the purpose of reproducing a copy of music work on the storage medium of a user's Portable Device(s) or Non-portable Device(s). Spotify offers downloads by selling credit bundles (of different sizes) the download revenue are recognised as these credits are exchanged for a permanent digital media file or when the credit bundle expires. Credit bundles of size 1 expire after 24 hours, credit bundles of size larger than 1 expire after 30 days.

Interest income

Interest income is recognised using the effective interest method.

Dividend income

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

Royalty costs

The Royalty costs consist of royalty fees to record labels and other right holders. Royalty is accounted for in accordance with agreements and treated as an expense in the income statement when they occur.

Pension plan

All pension plan within the Group corresponds with local legal requirements and are classified as defined contribution plans and accounted for as an expense in the income statement when they occur.

Current assets and current liabilities

All current assets and current liabilities are all due within one year.

Cash and cash equivalents

Cash and short term deposits in the statements of financial position comprise cash at bank and on hand.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash and cash at bank only.

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 Group 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 Group. 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.

Land is not depreciated. 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:

Equipment: 20% - 33% per annum

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 9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/ (losses) – net' in the statement of comprehensive income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. All intangible assets consist of internally generated assets.

The useful lives of intangible assets are assessed as either definite or indefinite.

Intangible assets with definite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a definite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with definite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. At present Spotify do not have any assets with an indefinite useful life.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

The Group amortizes its intangible assets with definite lives over their estimated useful lives and reviews these assets for impairment. The Group is currently amortizing its internally developed intangible assets with definite lives over a three years period

The Group did not record any significant impairment during 2011

The disclosed intangible assets refer to the investment done in the development of the Spotify site

Impairment of non-financial assets other than inventories

Assets that are subject to depreciation or amortization 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 impairment are reviewed for possible reversal of the impairment at each reporting date

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions)

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense

All options are valued at fair value at grant date

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, which 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

Where 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 any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification

Where 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 entity or the employee 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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share when the group will be in a profit situation. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in note 14

Borrowings

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

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

Fees paid 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.

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.

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 on 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 Group. 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 the net carrying amount equals the highest amount that is likely to be recovered based on current or future taxable profit.

Trade and other receivables

Trade 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 receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Trade and other payables

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

Financial instruments

The Group's financial assets include cash and trade and other receivables and the Group'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.

Impairment of financial assets

The Group 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 event 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 Group 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 principle payments,
- The Group, 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 that correlate with defaults on the assets in the portfolio

The Group 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 Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full

All the Groups' financial assets and liabilities are valued at amortized cost.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. The Group does not have any long term liabilities.

According to IAS 32 the bridge loan from shareholders is valued at a discounted value. Therefore, an adjustment of the bridge loan has been done in FY 2010 where the theoretical interest for FY 2010 has been recognised as an interest expense and the discounted amount during FY 2011 up to the estimated maturity date has been transferred from liabilities to other reserves within the equity. No bridge loan exists for FY 2011.

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.

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.

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 leases.

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

Each lease payment is 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 are depreciated over the shorter useful life of the asset and the lease term.

Dividend distribution

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

Information about subsidiaries

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Country of registration</i>
Spotify Technology Holding Ltd	Ordinary shares	100%	Cyprus
Spotify Technology Sales Ltd	Ordinary shares	100%	Cyprus
Spotify AB	Ordinary shares	100%	Sweden
Spotify USA Inc	Ordinary shares	100%	USA
Spotify Ltd	Ordinary shares	100%	UK
Spotify Norway AS	Ordinary shares	100%	Norway
Spotify Spain S L	Ordinary shares	100%	Spain
Spotify Germany GmbH	Ordinary shares	100%	Germany
Spotify France SAS	Ordinary shares	100%	France
Spotify Sweden AB	Ordinary shares	100%	Sweden
Spotify Netherlands B V	Ordinary shares	100%	Netherlands
Spotify Finance Ltd	Ordinary shares	100%	UK
Spotify Finland OY	Ordinary shares	100%	Finland
Spotify Denmark AS	Ordinary shares	100%	Denmark
Spotify Switzerland AG	Ordinary shares	100%	Switzerland
Spotify Belgium N.V	Ordinary shares	100%	Belgium
Spotify Austria GmbH	Ordinary shares	100%	Austria
Spotify Canada Inc	Ordinary shares	100%	Canada
Spotify Singapore Pte Ltd.	Ordinary shares	100%	Singapore
Spotify Hong Kong Ltd	Ordinary shares	100%	Hong Kong
Spotify Australia Pty Ltd	Ordinary shares	100%	Australia

The additions for year 2011 consist of the investment in Spotify Finance Ltd, Spotify Finland OY, Spotify Denmark AS, Spotify Switzerland AG, Spotify Belgium N V, Spotify Austria GmbH, Spotify Canada Inc, Spotify Singapore Pte Ltd , Spotify Hong Kong Ltd and Spotify Australia Pty Ltd The companies were created within the group

Information about key sources of estimation uncertainty and judgements

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

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 managements to exercise its judgement or complexity, or areas where assumptions and estimation are significant to the consolidated financial statements are disclosed.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. No estimates and assumptions that have been made are considered to have a material effect on the results or assets and liabilities of the Group. However, significant areas for key sources of estimation uncertainty are impairment of accounts receivable and intangible assets. Accounts receivable are valued at fair value and intangible assets net of depreciation.

Intangible assets are valued according to IAS 38. The intangible assets are capitalized and amortised over their useful life. The Group assesses at each statement of financial position date whether any impairment exists. In determining impairment, management makes assumptions regarding the expected future cash-flow derived from the asset. This is according to management one of these items where judgement can have a significant effect on the amount recognised.

Notes

2. Revenue

The breakdown of the revenue is as follows

	2011 €	2010 €
Analysis of revenue by category		
Sales of advertisements	27 599 708	21 130 714
Sales of subscriptions	156 892 221	52 583 119
Other revenues	3 340 937	137 467
Total	<u>187.832.866</u>	<u>73.851.300</u>

Spotify is not required to apply IFRS 8 since the company's equity instruments are not traded in a public market

3. Cost of sales

The cost of sales consists of License fees to rightsholders, cost of distribution of the service and transaction costs

4 Personnel cost

	2011 €	2010 €
Wages and salaries	16 994 858	5 924 269
Social security expenses	4 531 700	2 114 875
Pensions	296 914	105 053
Other personnel expenses	2 618 574	679 672
Total	<u>24 442 046</u>	<u>8.823.869</u>

Average full time employees	<u>311</u>	<u>145</u>
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Director's remuneration during the year was € 184 634 (2010: € 414 805)

5. Other external expenses

For the year ended 31 December the Group has reconciled charges - both billed and accrued - from its independent auditor and affiliated companies thereof, as set out below

	2011 €	2010 €
Assurance services	157 000	147 000
Tax advisory services	33 000	30 000
Non-audit services	138 000	35 000
Total audit fees	<u>328 000</u>	<u>212 000</u>

6 Finance Income

	2011 €	2010 €
Finance income		
Interest income on financial assets measured at amortised cost	171 926	29 419
Net foreign exchange gains on financing activities	<u>3 703 560</u>	<u>-</u>
Finance income	<u>3 875 486</u>	<u>29 419</u>
Finance costs		
Interest expense on financial liabilities measured at amortised cost	-1 551 312	-141 386
Net foreign exchange losses on financing activities	<u>-</u>	<u>-4 946 824</u>
Finance costs	<u>-1,551,312</u>	<u>-5 088,210</u>
Finance cost - net	<u>2,324,174</u>	<u>-5 058,791</u>

7 Tax

(a) Tax on loss on ordinary activities

	2011 €	2010 €
Current income tax		
Current income tax charge	-473 201	-945 137
Deferred tax		
Relating to origination and reversal of temporary differences	<u>-426 160</u>	<u>-532 000</u>
Income tax expense reported in the income statement	<u>-899,361</u>	<u>-1 477 137</u>

No deferred tax asset has been recognized on the tax losses carried forward because 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 recognized amounts to €49 365 486. There are no limitations in time regarding when the tax losses can be used.

(b) Factors affecting the tax charge for the year

	2011 €	2010 €
Accounting loss before income tax	-44,523,708	-26 974,278
Losses for which no deferred tax asset was created	49 951 051	28 549 428
Deductible/non deductible expenses	-2 093 222	1 664 890
Taxable income	3,334 121	3 240 040
Adjustments for other tax rates	-1 691 062	41 685
Tax charge on profit for the year (at the effective income tax rate of 28,8 % (28,8%))	<u>-473 201</u>	<u>-945 137</u>

(c) Deferred tax

No deferred tax has been recognised on the tax losses carried forward because of uncertainty over when the losses will be utilised. Tax charges in future years will be reduced if tax losses brought forward are utilised.

8. Intangible assets

Capitalised development costs amortised over their useful life

	2011 €	2010 €
Acquisition value		
As at 1 January	4 182 000	888 000
Additions	4 374 000	3 294 000
Disposals	-	-
At 31 December	<u>8 556 000</u>	<u>4 182 000</u>
Accumulated depreciation		
At 1 January	-1 690 000	296 000
Depreciation	-2 852 000	1 394 000
Disposals	-	-
At 31 January	<u>-4 542 000</u>	<u>1 690 000</u>
Carrying amount		
Net book value at 31 December	<u>4 014 000</u>	<u>2 492 000</u>

9 Equipment

	2011 €	2010 €
Acquisition value		
As at 1 January	2 879 764	1 249 867
Additions	5 461 400	1 637 756
Disposals	-79 855	-60 190
Foreign currency exchange differences	-114 903	52 331
At 31 December	<u>8 146 406</u>	<u>2 879 764</u>
Accumulated depreciation and impairment		
At 1 January	-1 191 193	-505 446
Annual depreciation	-1 372 014	-702 823
Disposals	8 846	27 063
Foreign currency exchange differences	125 530	-9 987
At 31 January	<u>-2 428 831</u>	<u>-1 191 193</u>
Carrying amount		
Net book value at 31 December	<u>5 717 575</u>	<u>1 688 571</u>

10 Other non-current assets

	2011 €	2010 €
Lease deposits Europe	1 222 979	394 117
Lease deposits USA	124 286	95 564
Lease deposits Rest of World	22 820	-
	<u>1 370 085</u>	<u>489 681</u>

Deposits refer to payments made to lessors

11 Trade and other receivables

	2011 €	2010 €
Trade receivables	24 387 576	13 537 783
Prepaid expenses	3 123 191	524 200
Receivables from related parties	-	-
Accrued income	935 073	1 174 479
Other receivables	3 502 103	2 108 686
Advances to rightsholders	15 478 907	-
	<u>47 426 851</u>	<u>17 345 148</u>

(Age analysis, see note 20)

The fair value of receivables above approximate their carrying values.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables

12. Cash and cash equivalents

	2011 €	2010 €
Cash at bank and on hand	<u>104 271 498</u>	<u>47 251 972</u>

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

13 Issued Share Capital

	2011 €	2010 €
At 1 January	62 303	59 253
Issued	10 672	3 050
At 31 December	<u>72 975</u>	<u>62 303</u>

During the year no dividends were paid on the equity shares. All shares have equal rights to vote at general meetings and receive dividends. No dividends are proposed for the present year.

During the year, the authorised share capital was increased by € 10 672 (2010: € 3 050) by the issue of 426 907 (2010: 122 000) ordinary shares of € 0,025 each (2010: € 0,025) and a share premium increase by €102,428,276. As of December 31, 2011 the authorised and fully paid share capital amounted to €72 975 (€62 303) represented by 2 919 021 ordinary shares of €0,025 each.

14. Share-based payment plans

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest at grant and up to four years after grant. The vesting period is normally three months.

The fair value of the share options is estimated at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the share options were granted.

Share Appreciation Rights

The expense recognised for employee services received during the year is shown in the following table:

	2011 €	2010 €
Expense arising from equity-settled share-based payment transactions	1 614 430	133 202
Total expense arising from share-based payment transactions	<u>1 614 430</u>	<u>133 202</u>

There have been no cancellations or modifications to any of the plans during 2011 or 2010.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding at 1 January	42 278	88,18	153 000	24,48
Cancelled pool	-6 360	58,3	0	0
Granted during the year (net)	135 800	231,26	11 278	97,71
Bought from warrant	-5 000	58,3	0	0
Exercised during the year	-1 803	58,3	-122 000	5,54
Outstanding at 31 December	<u>164 915</u>	<u>203,42</u>	<u>42 278</u>	<u>88,18</u>
Exercisable at 31 December	0	0	0	0

The weighted average contractual life for the share options outstanding as at 31 December 2011 is four (2010: two) years.

The weighted average fair value of options granted during the year was € 267,32 (2010: € 97,71).

The exercise prices for options outstanding at the end of the year were (converted to euro at ending balance rate as per December 31): € 58,30 - 267,32 (2010: € 58,30 - 169,43).

The following tables list the inputs to the models used for December 2011 and December 2010

	2011	2010
Expected volatility (%)	30	30
Risk-free interest rate (%)	2,68	2,37
Expected life of share options (years)	4,75	2
Weighted average share price (€)	267,32	97,71
Models used	Black-Scholes	Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. 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 may also not necessarily be the actual outcome.

15. Current liabilities

	2011 €	2010 €
Trade payables	24 779 745	9 342 917
Loans from shareholders	-	20 964 232
Other current liabilities	558 417	1 058 754
VAT payable	4 714 886	-
Income tax payable	1 244 380	891 352
Deferred ad revenue	1 186 845	429 428
Deferred premium revenue	18 663 052	6 576 050
Accrued fees to rightholders	33 395 681	16 338 370
Other accrued expenses	5 685 929	652 804
Employee liabilities	2 921 426	1 343 430
	<u>93 150 361</u>	<u>57 597 337</u>

In December 2010, the shareholders of the Group advanced an interest free loan to the Group. This loan has been recognised at its fair value. The difference between the fair value and the nominal value has been recognised in Shareholders Equity as an additional equity contribution from the shareholders. The loan was converted to shares during 2011.

Maturity analysis for trade payables are disclosed in note 20.

16 Other reserves

	2011 €	2010 €
At 1 January	6 869 253	203 366
Currency translation differences	-592 062	4 989 366
Revaluation of shareholders loan	-	1 676 521
At 31 December	<u>6 277 191</u>	<u>6 869 253</u>

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy on foreign currency translation.

17. Obligations under leases

Operating leases where the Group is leaseholder

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

The future minimum rentals payable under non-cancellable operating leases are as follows

	2011 €	2010 €
Not later than one year	4 108 439	867 637
Later than year but not more than 5 years	1 870 863	817 124
More than 5 years	-	-
	<u>5.979.302</u>	<u>1 684.761</u>

18. Commitments and contingencies

	2011 €	2010 €
Bank guarantees	<u>265 516</u>	<u>320 793</u>
At 31 December	<u>265 516</u>	<u>320 793</u>

19. Contractual obligations

The future minimum royalties payable are € 120 839 293 as of December 31, 2011 (2010 € 17 330 550)

20. Financial risk management objectives and policies

The Group financial liabilities are trade and other payables and financial assets are trade receivables and cash

Capital management

Capital includes ordinary shares and equity attributable to the equity holders of the parent

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 0 % and 40 %. The Group includes within net debt, trade and other payables, less cash and cash equivalents, excluding discontinued operations

Credit risk

The Group seeks to minimise its exposure to credit risk by using established financial institutions. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained

At 31 December 2011 the maximum exposure to credit risk from trade and other receivables was € 24 387 576. Financial assets that were past due or impaired at 31 December 2011 are detailed in the tables below

Credit risk means the risk of financial loss if a customer or contracting party of a financial instrument fails to fulfill its contractual duties. The Group endeavours 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

Maturity analysis of trade receivables as at 31 December 2011 and 31 December 2010

Net amount after impairment

	2011	Impairment shown gross	2010	Impairment shown gross
	€	2011 €	€	2010 €
Not yet due	15 190.537	-	7 684 000	-
Overdue 0 - 30 days	6 616.779	-	1 619 000	-
Overdue 31 - 60 days	1 299 877	-	1 145 000	-
Overdue 61 - 90 days	1 226 262	-279.319	1 174 000	-
Overdue > 91 days	54 121	-1 919 086	2 062 000	-146 217
	<u>24.387.576</u>	<u>-2 198.405</u>	<u>13.684 000</u>	<u>-146.217</u>

Change in provision for bad debts

	31 Dez 2011 €	31 Dez 2010 €
Carrying amount at 1 January	146 217	-
Provision in year	2 198 405	146 217
Carrying amount at 31 December	<u>2.344 622</u>	<u>146.217</u>

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

Maximum credit risk as at 31 December 2011 and 31 December 2010

	31 Dez 2011 €	31. Dez 2010 €
Other non-current assets	1.370 085	489 681
Accrued receivables from uncompleted contracts	935 073	1 174 479
Receivables	24 386 932	13 078 352
Other receivables	1 998 949	459 218
	<u>28 691 039</u>	<u>14.712 049</u>

Liquidity risk

The Group has no external borrowings

All the financial liabilities of the Group are due within one year

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

	Carrying amount €	Contractual cash flow €	Due in 0-6 months €
December 31, 2011			
Trade and other payables	24 779 745	24 779 745	24 779 745
Shareholder loans	-	-	-
	<u>24 779 745</u>	<u>24.779 745</u>	<u>24 779 745</u>
	Carrying amount €	Contractual cash flow €	Due in 0-6 months €
December 31, 2010			
Trade and other payables	9 342 917	9 342 917	9 342 917
Shareholder loans	20 964 232	20 964 232	20 964 232
	<u>30.307.149</u>	<u>30.307.149</u>	<u>30.307.149</u>

Fair value of financial instruments

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure. The Company has all their financial instruments in cash and accounts receivables.

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

	Carrying amount 31. Dez 11 €	Fair value 31. Dez 11 €	Carrying amount 31. Dez 10 €	Fair value 31. Dez 10 €
Financial assets				
Cash and cash equivalents	104 271 498	104 271 498	47 251 972	47 251 972
Accounts receivables	24 387 576	24 387 576	13 537 783	13 537 783

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

The only income and expenses recognised in the consolidated income statement with respect to those financial assets are interest on cash and cash equivalents and impairment on accounts receivables since all other financial assets do not have an effect on the consolidated financial statement of comprehensive income.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's Functional currency) and the Group's net investments in foreign subsidiaries.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to GBP, USD, SEK and NOK. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The following table illustrates the sensitivity of the losses for the financial year, the assets and the liabilities to an increase or decrease of 10 % and 5 % in the rate of exchange between Euro on one hand and GBP, USD, SEK and NOK on the other. This level of change is considered to be reasonably possible on an observation of movements in the rate of exchange between the Euro and GBP, USD, SEK and NOK during 2011 and current market conditions. The sensitivity analysis is based on the Group's revenues using the average exchange rate for the period. All other variables are held constant.

	Effect of 10 % appreciation of Euro €	Effect of 5 % appreciation of Euro €	Effect of 5 % depreciation of Euro €	Effect of 10 % depreciation of Euro €
Loss before tax	-2 125 866	-1 062 933	1 062 933	2 125 866
Total liabilities	-30 743 483	-15 371 742	15 371 742	30 743 483
Total assets	52 245 515	26 122 757	-26 122 757	52 245 515

Interest rate risk

The Group is not directly exposed to interest rate risk as it is funded by equity and interest free loans from shareholders. The management has the opinion that there are not any specific concentration of risk to clients, banks etc.

21 Related party transactions

Key management compensation

Key management includes the Director, all members of Group Management and the Company Secretary. The compensation paid or payable to key management for employee services is shown below. Compensation to key management for the group has been paid from Spotify Ltd and Spotify AB. All compensation to key management refers to Director Daniel Ek. Last year the compensation referred to one of the co-founders and Director Daniel Ek.

	2011 €	2010 €
Total key management compensation	<u>184 634</u>	<u>414 805</u>

22. Events after the reporting year

The Group has ambitious growth plans. On March 2012, the Group launched in Germany, and during the second quarter 2012 the Company will launch in Australia, New Zealand and Canada.

The share capital have been increased further with 18 235 shares in January.

In April 2012, the Company changed their registered office to 18, Rue de l' Eau, L-1449, Luxembourg.