

Spotify Ltd

Reg nr 06436047

Report and Financial Statements
for the year 2012-01-01 - 2012-12-31



Spotify Ltd Registered number 06436047

The Company is incorporated in England and Wales.

Company number: 06436047

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

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

Current Directors: Daniel Ek
Angela Claire Mary Watts

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

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Report of the Directors for the year ended 31 December 2012

Spotify Ltd Registered number 06436047

Registered number 06436047

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012

Principal activities

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

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

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

Review of business and future developments

The Company aggregates content from its various 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 Europe, United States and Australia and the Company is looking to expand into further markets

Total revenue decreased from £96,544,439 to £92,612,389 This was attributable to an increase in advertising revenue from £8,148,530 to £9,147,372 and sales of subscriptions that decreased from £72,462,713 to £64,756,426 As of year end the total negative equity amounts to £18,001,160 (2011 £7,892,362) Total assets at year end amounts to £152,218,680 (2011 £99,314,863) where cash is £11,931,604 (2011 £25,425,738)

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

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

Financial risk management objectives and policies

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

Report of the Directors for the year ended 31 December 2012 (continued)

Spotify Ltd Registered number 06436047

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 2013 and 2014 cash flow forecasts, the Directors believe that the Group has adequate resources to continue as a going concern. For this reason, the financial statements have been prepared on that basis. The Group continues to have ambitious growth plans and has launched in several new countries during 2013 and will continue to do so in 2014

Results and dividends

The Company generated a loss for the year after taxation of £10,108,798 (2011 £21,027,687 profit). No dividends were declared.

Directors

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

Daniel Ek

James Duffett-Smith (appointment terminated 25 06 13)

Angela Claire Mary Watts (appointed 25 06 13)

Directors' liabilities

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

Events after the reporting year

The Group continues to have ambitious growth plans and has launched in several new countries during 2013 and will continue to do so in 2014

Statement of disclosure to auditors

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


Auditors

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

On behalf of the board


Daniel Ek
Director

Date 05/11/13


Angela Claire Mary Watts
Director

Date 05/11/13

Statement of Directors' responsibilities

Spotify Ltd Registered number 06436047

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

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

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

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

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

Independent Auditor's report to the members of Spotify Limited

Spotify Ltd Registered number 06436047

We have audited the Annual Report and financial statements of Spotify Limited for the year ended 31 December 2012 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 set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Spotify Ltd Registered number 06436047

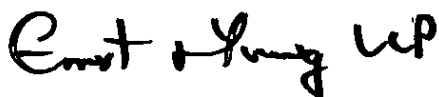
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Michael Wansbury (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date **- 6 NOV 2013**

Statement of comprehensive income for the year ended 31 December 2012

Spotify Ltd Registered number 06436047

		2012	2011
	Note	£	£
Continuing operations			
Revenue	3	92 612 389	96 544 439
Cost of sales		(76 210 770)	(87 917 737)
Gross profit		16 401 619	8 626 702
Distribution costs		(3 454 844)	(2 556 473)
Administrative expenses		(13 820 919)	(13 641 261)
Other operating income		4 216	2 631 725
Other operating expenses		(2 855 232)	(4 154)
Operating loss	7	(3 725 160)	(4 943 461)
(Loss)/Profit on sale of intangible asset	4	(7 040 227)	24 366 536
Finance income		2 329 927	2 884 486
Finance costs		(1 673 338)	(1 279 874)
Finance costs - net	5	656 589	1 604 612
(Loss)/Profit before tax from continuing operations		(10 108 798)	21 027 687
Income tax expense	8	-	-
(Loss)/Profit for the year		(10 108 798)	21 027 687

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

The loss for the year is attributable to owners of the Company

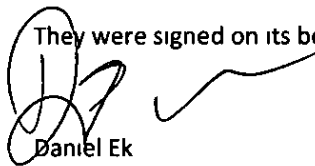
There are no recognised gains or losses in the year other than those items recorded in the statement of comprehensive income above

Statement of financial position as at 31 December 2012

Spotify Ltd Registered number 06436047


	Note	2012 £	2011 £
ASSETS			
Non-current assets			
Property, plant and equipment	12	5 053 933	2 815 347
Investments	13	111 113	111 113
Other non-current assets	14	2 056 141	19 384 016
		7 221 187	22 310 476
Current assets			
Cash and cash equivalents	9	11 931 604	25 495 738
Trade and other receivables	11	133 065 889	51 276 412
Other current assets		-	232 237
		144 997 493	77 004 387
Total assets		152 218 680	99 314 863
LIABILITIES			
Non-current liabilities			
Interest bearing loans	17	(58 692 704)	(18 591 837)
		(58 692 704)	(18 591 837)
Current liabilities			
Trade and other payables	15	(111 524 301)	(88 613 913)
Other current liabilities		(2 835)	(1 475)
		(111 527 136)	(88 615 388)
Net liabilities		(18 001 160)	(7 892 362)
EQUITY			
Share capital	16	1 000	1 000
Shareholder contributions		14 544 300	14 544 300
Retained earnings		(32 546 460)	(22 437 662)
Total equity		(18 001 160)	(7 892 362)

The accompanying notes are an integral part of this Statement of financial position. The financial statements of Spotify Limited, registration number 06436047, on pages 7 to 30 were approved by the Board of Directors and authorised for issue on 2013.

They were signed on its behalf by

 Daniel Ek
 Director

Date

08/11/13


 Angela Claire Mary Watts
 Director

Date

08/11/13

Statement of changes in equity for the year to 31 December 2012

Spotify Ltd Registered number 06436047

Attributable to equity holders of the Company

	Share capital £	Shareholder contributions £	Retained earnings £	Total £
Balance at 1 January 2011	1 000	10 128 832	(43 465 348)	(33 335 516)
Total comprehensive profit for the year in 2011	-	-	21 027 687	21 027 687
Contribution received in the year	-	4 415 468		4 415 468
Balance at 31 December 2011	1 000	14 544 300	(22 437 661)	(7 892 361)
Total comprehensive loss for the year in 2012	-	-	(10 108 798)	(10 108 798)
Balance at 31 December 2012	1 000	14 544 300	(32 546 459)	(18 001 159)

Statement of cash flows for the year to 31 December 2012

Spotify Ltd Registered number 06436047

	Note	2012 £	2011 £
Cash flows from operating activities			
(Loss)/Profit before tax from continuing operations		(10 108 798)	21 027 687
Depreciation	12	1 543 664	920 210
Foreign exchange loss/(gains)		853 806	-
Loss on disposal of property, plant and equipment		-	59 314
Loss/(gain) on sale of intangible asset		7 040 227	(24 366 536)
		<u>(671 101)</u>	<u>(2 359 325)</u>
Working capital adjustments			
Increase/(decrease) in receivables		18 446 073	(6 632 309)
(Decrease)/increase in payables		(986 984)	25 494 707
		<u>17 459 089</u>	<u>18 862 398</u>
Income tax paid		-	-
Net cash flows from operating activities		<u><u>16 787 988</u></u>	<u><u>16 503 073</u></u>
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(3 782 250)	(2 741 514)
Payments in respect of investments		-	(10 549)
Movement in loan		424 150	(19 151 502)
Net cash flows used in investing activities		<u><u>(3 358 100)</u></u>	<u><u>(21 903 565)</u></u>
Financing activities			
Borrowings		(26 739 416)	18 591 837
Received shareholder contributions		-	4 415 468
Net cash flows from financing activities		<u><u>(26 739 416)</u></u>	<u><u>23 007 305</u></u>
Effects of exchange rates on cash and cash equivalents		(254 606)	(65 169)
Net (decrease)/increase in cash and cash equivalents		<u><u>(13 564 134)</u></u>	<u><u>17 541 644</u></u>
Cash and cash equivalents at beginning of year		<u><u>25 495 738</u></u>	<u><u>7 954 094</u></u>
Cash and cash equivalents at end of year		<u><u>11 931 604</u></u>	<u><u>25 495 738</u></u>

The prior year gain on disposal of intangible asset of £24,366,536 has been reclassified in the 2011 comparative of the cash flow statement from movement in receivables to loss/(gain) on sale of intangible assets in order to be consistent with the current year disclosure

Notes to the financial statements

Spotify Ltd Registered number 06436047

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

Note 1 Accounting policies

Basis of preparation

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

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

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

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.

Foreign exchange gains and losses in 2011 that do not relate to operations have been reclassified from Other operating income/Other operating expenses to Finance income/Finance costs. Additionally, agency fees were accounted for on a net basis within advertising revenue in the prior year but have been presented gross in the 2011 comparatives in order to be consistent with the 2012 disclosure. Accrued advertising revenue and advances to rights holders were classified within other current assets in the 2011 disclosure and are now classified as prepayments and accrued income. Intercompany service charges were classified within administrative expenses in 2011 and are now accounted for as a cost of sale and the 2011 numbers have been adjusted.

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 2013 and 2014 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.

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

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

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

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

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

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

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group’s financial position or performance. These amendments become effective for annual periods beginning on or after 1 January 2013.

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, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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 Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 2013.

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

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

IAS 27 Separate Financial Statements

For companies within EU these revised standards become effective for annual periods beginning on or after 1 January 2014

IAS 28 Investments in Associates and Joint Ventures

For companies within EU these revised standards become effective for annual periods beginning on or after 1 January 2014

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 will have no impact on the financial position and performance of the group. This standard becomes effective for annual periods beginning on or after January 2013. For companies within EU they are postponed until 1 January 2014. Since Spotify only presents consolidated accounts and no separate Financial Statements and does not have any investments in associates, joint ventures and joint arrangements, IAS 27, IAS 28 IFRS 11 are not applicable.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

Revenue recognition

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

Revenue recognition (continued)

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

(a) Sale of advertisements

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

(b) Sale of subscriptions

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

(c) Sale of partner subscriptions

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

(d) Interest income

Interest income is recognised using the effective interest method.

(e) Dividend income

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

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.

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 12). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating expenses – net' in the statement of comprehensive income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Impairment of trade receivables

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

Impairment of non-financial assets

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

Borrowings

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

Borrowings (continued)

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 24.5% (2011: 26.5%).

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 (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

Financial instruments (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

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.

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 1 Accounting policies (continued)

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 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.

Note 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 (continued)

Spotify Ltd Registered number 06436047

Note 3 Revenue

The breakdown of the revenue is as follows

Analysis of revenue by category	2012 £	2011 £
Sales of advertisements	9 147 372	8 148 530
Sales of subscriptions	64 756 426	72 462 713
Other	18 708 591	15 933 196
Total	92 612 389	96 544 439

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

Note 4 (Loss)/gain of sale of intangible assets

	2012 £	2011 £
(Loss)/gain on sale of intangibles	(7 040 227)	24 366 536
Total	(7 040 227)	24 366 536

The loss 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

Note 5 Finance income/costs - net

	2012 £	2011 £
Finance income		
Interest income on financial assets measured at amortised cost	1 359 130	2 884 486
Net foreign exchange gains	970 797	-
Total	2 329 927	2 884 486
Finance costs		
Interest expense on financial liabilities measured at amortised costs	(1 134 712)	(733 084)
Impairment of shares in subsidiary	(538 626)	(545 904)
Net foreign exchange loss	-	(886)
Total	(1 673 338)	(1 279 874)
Finance income - net	656 589	1 604 612

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 6 Employee information

	2012	2011
	£	£
Wages and salaries	4 879 330	3 181 888
Social security costs	1 044 089	406 656
Total	5 923 419	3 588 544

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

	2012	2011
	£	£
Sales and Marketing	95	52
General and administration	16	12
Total number of employees	111	64

Directors' emolument's during the year were £95,625 (2011 £116,079)

The highest paid director received £95,625 (2011 £85,333) There is no pension - or severance agreements between the Company and the directors

Some directors received no emoluments from the company during the year or prior period Those directors were remunerated by other group companies for services rendered to the company

See note 19

Note 7 Operating loss

Operating loss is stated after charging/(crediting)

	2012	2011
	£	£
Depreciation on owned assets	1 543 665	920 210
Foreign exchange losses/(gains)	3 426 078	(2 633 737)
Loss on disposal of property, plant and equipment	-	59 314
Operating lease rentals - Land and Buildings	692 888	646 582
Auditor's remuneration - audit	30 360	30 000

Note 8 Tax

(a) Tax on loss on ordinary activities

There is no current or deferred tax charge/credit in 2012 and 2011

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 8 Tax (continued)

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

The current tax assessed for the year is different from the average UK standard rate of corporation tax of 24,5% (2011 26,5%) The differences are explained as follows

	2012 £	2011 £
(Loss)/profit on ordinary activities for the year before tax	(10 108 798)	21 027 687
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24,5% (2011 26,5%)	(2 476 656)	5 572 337
<i>Effects of</i>		
Non-deductible expenses	76 268	90 948
Utilisation of previously unrecognised tax losses	-	(5 663 285)
Losses utilised by other group companies	27 314	-
Tax losses carried forward	2 373 074	-
Current tax charge for the year	-	-

(c) Factors that may affect future tax charges

Announcements were made during 2011 and 2012 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Company A reduction in the corporation tax rate to 24%, effective 1 April 2012, was substantively enacted in two steps, initially to 25% on 5 July 2011, and then subsequently to 24% on 26 March 2012 A further reduction to 23%, effective from 1 April 2013, was substantively enacted on 3 July 2012 Further reductions in the corporation tax rate to 21%, effective 1 April 2014, and to 20% effective 1 April 2015 were substantively enacted on 2 July 2013, subsequent to the balance sheet date

(d) 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 £30,831,457 (2011 £21,033,957) There are temporary differences on which no deferred tax asset has been recognised, amounting to £456,759 (2011 £390,767)

Note 9 Cash and cash equivalents

	2012 £	2011 £
Cash at bank and on hand	11 931 604	25 495 738

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 10 Financial instruments

	Note	2012 £	2011 £
Financial assets			
Financial assets measured at cost less impairment	17	<u>10 060 993</u>	<u>32 157 502</u>
Financial liabilities			
Financial liabilities measured at cost	17	<u>55 955 603</u>	<u>40 817 874</u>

Note 11 Trade and other receivables

	Note	2012 £	2011 £
Trade receivables		7 054 714	11 882 831
Prepayments and other debtors		1 840 522	6 450 231
Amounts owed by group undertakings	19	119 055 362	31 622 288
VAT receivable		-	662 644
Accrued income		<u>5 115 291</u>	<u>658 418</u>
Total		<u>133 065 889</u>	<u>51 276 412</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

Note 12 Property, plant and equipment

	2012 £	2011 £
Cost		
At 1 January	4 264 391	1 589 580
Additions	3 782 250	2 741 514
Disposals	-	(66 703)
At 31 December	8 046 641	4 264 391
Accumulated depreciation and impairment		
At January	1 449 044	536 223
Depreciation	1 543 664	920 210
Disposals	-	(7 389)
At 31 December	2 992 708	1 449 044
Carrying amount		
Net book value at 31 December	<u>5 053 933</u>	<u>2 815 347</u>

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 13 Investments

	2012	2011
	£	£
Cost		
At 1 January	657 017	100 564
Additions	538 626	556 453
At 31 December	1 195 643	657 017
Impairment		
At January	(545 904)	-
Impairment	(538 626)	(545 904)
At 31 December	(1 084 530)	(545 904)
Net book value at 31 December	111 113	111 113

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	Country of
Spotify Norway AS	Ordinary shares	100%	Norway
Spotify Spain SL	Ordinary shares	100%	Spain
Spotify GmbH	Ordinary shares	100%	Germany
Spotify SAS	Ordinary shares	100%	France
Spotify Sweden AB	Ordinary shares	100%	Sweden
Spotify Netherlands B V	Ordinary shares	100%	Holland
Spotify Finland OY	Ordinary shares	100%	Finland
Spotify Hong Kong Ltd	Ordinary shares	100%	Hong Kong
Spotify Australia Pty Ltd	Ordinary shares	100%	Australia

Note 14 Other non-current assets

	2012	2011
	£	£
Loan to group undertakings:		
Spotify Finland OY	-	496 111
Spotify France SAS	1 369 013	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
Spotify Hong Kong	408 050	-
Total loan to group undertakings	1 777 063 0	19 121 171
Long-term deposits	279 078	262 845
Total	2 056 141	19 384 016

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 15 Trade and other payables

	2012	2011
	£	£
Trade payables	21 610 504	17 782 618
Amounts due to group undertakings (note 19)	34 345 099	40 417 394
Social security and other taxes	604 004	-
Accrued expenses	50 514 450	23 035 258
Deferred income	4 450 244	7 378 643
	<u>111 524 301</u>	<u>88 613 913</u>

Trade payables are non-interest bearing and settled on 30 day terms

The fair values of the payable amounts above approximate to their carrying amounts

Note 16 Issued share capital

	2012	2011
	£	£
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 (2011 1,000 shares)

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

Note 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.

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 17 Financial risk management objectives and policies (continued)

Financial assets that were past due or impaired at 31 December 2012 or 2011 are detailed in the tables below

At 31 December 2012 the Company held cash and cash equivalents amounting to £11,931,604 (2011 £25,495,738)

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 2012 and 31 December 2011

	Net	Impairment	Net	Impairment
	31/12/2012	2012	31/12/2011	2011
	£	£	£	£
Not yet due	4 091 933	-	7 521 311	-
Overdue 0 – 90 days	2 119 268	385 451	3 901 023	26 032
Overdue 91 – 180 days	382 775	292 589	228 495	186 803
Overdue 181 – 360 days	290 427	524 345	-	259 909
Overdue for more than 1 year	170 311	852 086	-	350 669
Total	7 054 714	2 054 471	11 650 829	823 413

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

Changes in value adjustments of trade receivables

	2012	2011
	£	£
Carrying amount at 1 January	823 413	271 956
Confirmed bad debt	(53 152)	(4 033)
Charge for the year	1 284 210	555 490
Carrying amount at 31 December	2 054 471	823 413

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 17 Financial risk management objectives and policies (continued)

Maximum credit risk as at 31 December 2012 and 31 December 2011

	2012	2011
	£	£
Other current assets	-	232 237
Other non-current assets	2 056 141	19 384 016
Accrued receivables from uncompleted contracts	950 138	658 418
Trade Receivables	7 054 714	11 882 831
Total	10 060 993	32 157 502

Liquidity risk

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

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

	Carrying amount £	Contractual cash flow £	Due in 0-12 months £
As of 2012			
Trade and other payables	111 524 301	111 524 301	111 524 301
As of 2011			
Trade and other payables	88 613 913	88 613 913	88 613 913
	Carrying amount £	Contractual cash flow £	Due in 2-5 years £
As of 2012-12-31			
Amounts owed to group undertakings (Interest rate 12 month EURIBOR + 2)	58 692 704	66 146 677	66 146 677

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 17 Financial risk management objectives and policies (continued)

Fair value of financial instruments

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

	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Financial assets				
Accrued receivables from uncompleted contracts	950 138	950 138	658 418	658 418
Trade and other receivables	7 054 714	7 054 714	11 882 831	11 882 831
Other current assets	-	-	232 237	232 237
Other non-current assets	2 056 141	2 056 141	19 384 016	19 384 016
Amounts owed by group undertakings	119 055 362	119 055 362	31 622 288	31 622 288
	£	£	£	£
Financial liabilities				
Trade and other payables	55 955 603	55 955 603	40 817 874	40 817 874
Amounts to group undertakings	93 037 803	93 037 803	59 009 231	59 009 231

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 2012 and 2011, 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	(3 171 137)	(1 585 568)	1 585 568	3 171 137
USD	(171 979)	(85 990)	85 990	171 979
SEK	(285 117)	(142 559)	142 559	285 117
AUD	(87 068)	(43 534)	43 534	87 068
Liabilities				
Euro	(10 857 598)	(5 428 799)	5 428 799	10 857 598
USD	(523 835)	(261 918)	261 918	523 835
SEK	(1 905 334)	(952 667)	952 667	1 905 334
AUD	(9 752)	(4 876)	4 876	9 752

Interest rate risk

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 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

	2012 £	2011 £
No later than 1 year	602 161	302 019
After one year but not more than 5 years	814 931	753 752

Note 19 Related party transactions

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

(a) Sales of advertisements

	2012 £	2011 £
Transactions with subsidiary undertakings		
Spotify Norway AS	-	1 825 750
Spotify Spain SL	-	1 533 921
Spotify SAS	-	287 306
Spotify Sweden AB	-	3 607 104
Spotify Netherlands B V	-	348 352
Total	-	7 602 433

(b) Sales of services

	2012 £	2011 £
Transactions with fellow subsidiary undertakings:		
Spotify AB	17 795 148	7 734 271
Total	17 795 148	7 734 271

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 19 Related party transactions (continued)	2012	2011
	£	£
Purchase of goods from fellow subsidiary undertakings:		
Spotify AB	-	39 543 214
Purchase of services from fellow subsidiary undertakings.		
Spotify AB	-	1 503 551
Spotify Finance Ltd	1 082 605	476 260
Spotify USA Inc	-	875 291
Purchase of services from subsidiary undertakings.		
Spotify SAS	-	375 027
Spotify Norway AS	-	377 825
Spotify Spain SL	-	312 945
Spotify Sweden AB	-	903 583
Spotify Netherlands B V	-	178 174
Total	1 082 605	44 545 870

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

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

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

	£	£
Short term employee benefits	95 625	116 079
Total key management compensation	95 625	116 079

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

Notes to the financial statements (continued)

Spotify Ltd Registered number 06436047

Note 19 Related party transactions (continued)

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

Receivables from related parties	2012 £	2011 £
Receivables from fellow subsidiary undertakings:		
Spotify AB	105 794 817	31 203 441
Spotify USA Inc	10 476 716	311 780
Spotify Australia PTY Limited	1 556 460	-
Receivables from subsidiary undertakings:		
Spotify Belgium NV	1 138	-
Spotify Spain SL	-	53 898
Spotify SAS	15 795	28 262
Spotify Netherlands B V	10 008	-
Spotify Germany GmbH	-	5 141
Spotify Austria GmbH	-	234
Spotify Finland OY	500 994	19 532
Spotify Hong Kong Limited	699 435	-
Total	119 055 363	31 622 288

Payables from related parties	2012 £	2011 £
Payables to fellow subsidiary undertakings:		
Spotify Finance Limited	29 276 298	40 208 637
Payables to parent Company:		
Spotify Technology S A	35 541	-
Payables to subsidiary undertakings		
Spotify Germany GmbH	3 911 907	-
Spotify Spain SL	1 121 352	208 757
Total	34 345 098	40 417 394

There are no provisions for related parties receivables in 2012 and 2011

Note 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.



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

R.C.S. Luxembourg B 123.052

THESE PARTNERSHIP ACCOUNTS FORM PART OF THE ACCOUNTS OF COMPANY No. 6436047.....
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Consolidated financial statements as at 31 December 2012
and
Independent auditor's report

1

THESE PARTNERSHIP
ACCOUNTS FORM
PART OF THE ACCOUNTS
OF COMPANY

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
Klaus Hommels
Par-Jorgen Parsson
Sean Parker

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



Spotify

SPOTIFY TECHNOLOGY S.A.
(Anc. SPOTIFY TECHNOLOGY S.à r.l.)
SOCIETE ANONYME
REGISTERED OFFICE: 18, RUE DE L' EAU
L-1449 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, 2012**

Luxembourg, May 2013

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, 2012, which are annexed to this report as an essential component.

It is the third 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

Review of business and future developments

The Group aggregates content from our various rights holders, distributes to consumers through our technical platform, and monetises through a free-to-the-user, advertising-supported service and a paid subscription service

The Spotify Group almost doubled the number of monthly active users and paying subscribers during the last 12 month period, from 11m users at the end of 2011 to over 20m in the end of 2012, where over 5m were paid subscribers

In 2012 Spotify launched in a number of new international markets; Germany, Australia, New Zealand, Ireland, Luxembourg, three sovereign states (Andorra, Liechtenstein, Monaco) and 36 dependent territories Spotify is now available in 17 countries: the UK, USA, Switzerland, Sweden, Spain, France, Finland, the Netherlands, Luxembourg, Norway, Belgium, Austria, Denmark, Germany, Australia, New Zealand and Ireland, and the Group is looking to expand into further markets.

During 2012 Spotify continued to innovate at speed, launching a number of new products, services and platforms. These products included the Spotify Play Button (an embeddable music player widget), the Spotify app for iPad, and 'Artist' apps, as well as a number of new apps with partners. In December 2012 Spotify unveiled a suite of new products designed to increase music discovery for users. These products included 'Discover' and 'Follow' which - along with the browser-based 'Web player' - will roll out through 2013.

This year Spotify forged a number of major strategic partnerships in order to further advance customer reach and deliver on business goals. These include telecoms partners (Deutsche Telekom, Telia Nordics, KPN Belgium and Yoigo in Spain), hardware (Samsung Smart TVs, Roku, Denon, Marantz and Tivo), online (Yahoo!, Amazon Kindle, Channel 4 TV UK and Bild.de) and retail (El Corte Inglés and Target). Spotify also partnered with one of the world's biggest brands, Coca-Cola which will be working with Spotify on strategic opportunities including new market launches and advertising campaigns.

Spotify's global advertising revenues increased substantially in 2012, showing an over 100% year-on-year increase versus 2011, during a period in which major brands such as Coca-Cola, McDonalds, Chevrolet, Best Buy, Bacardi, Gillette and eBay invested in campaigns across multiple Spotify markets.

The Company did not buy any of its own shares during the years 2011 and 2012.

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 continues 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 rights holders. Further information on risks and uncertainties is given in note 19 of the financial statements.

Going concern

Having reviewed the Group's liquid resources and the Group's 2013 and 2014 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

Spotify has launched in a number of new markets so far in 2013, with the first new market launches being Italy, Poland and Portugal in February 2013. In April 2013 Spotify made its first forays into the Latin American and Asian markets, with launches in Mexico, Malaysia, Hong Kong and Singapore, as well as further expansion in Europe, in the Baltics (Estonia, Latvia and Lithuania) and Iceland. The new product roll out of 'Follow', 'Discover' and the 'Web player' has commenced and will continue in 2013.

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 to fund future growth initiatives

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 (note 9)

Results and dividends

Annual overview	2012	2011	2010
Turnover	€ 434,698,313	€ 190,356,996	€ 73,851,300

The Group generated a loss for the year after taxation of € -58,662,032 (year ended December, 31 2011: -45,423,069). No dividends were declared

During the year 2012, the Company has carried out all its activities in line with its purpose. The total of the consolidated balance sheet as at December, 31 2012 stands at € 268,361,620 and the Company has made a consolidated loss of € -147,646,759.

The Company showed a gross profit of € 71,918,679 compared to a gross profit last year of € 4,321,319. This was attributable to an increase in sales of subscriptions from € 156,892,221 to € 368,755,105 and an increase in advertising revenue that grew from € 30,123,838 to € 59,647,059. The Operating loss for the year ending 2012 amounts to € -52,864,798 compared to € -43,144,433 last year. This is explained by a lot of investments that have been made during the year, mostly in international expansion, engineering and personnel.


Post Balance Sheet Events

No matters or circumstances of material importance have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Group or the results of those operations

The consolidated financial statements will be presented for the annual general meeting for approval. 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 Pärsson
B Director

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 29 June 2012, 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 2012, 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.

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.

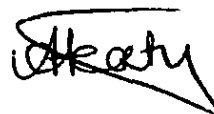
Opinion

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 2012, 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

A handwritten signature in black ink, appearing to read 'Aine HEARTY'.

Aine HEARTY

Luxembourg, 5 June 2013

Consolidated income statement

for the year ended 31 December 2012

	Note	2012 €	2011 €
Continuing operations			
Revenue	2	434 698 313	190 356 996
Cost of sales	3	<u>-362 779 634</u>	<u>-186 035 677</u>
Gross profit		71 918 679	4 321 319
Other operating income	4	-	3 703 449
Personnel cost	5	-64 980 860	-24 442 046
Other external expenses	6	-51 010 587	-22 503 141
Depreciation	9,10	<u>-8 792 030</u>	<u>-4 224 014</u>
		-124 783 477	-47 465 752
Operating loss		-52 864 798	-43 144 433
Finance income		87 937	172 037
Finance costs		<u>-3 967 047</u>	<u>-1 551 312</u>
Finance costs - net	7	-3 879 110	-1 379 275
Loss before tax		-56 743 908	-44 523 708
Income tax expense	8	-1 918 124	-899 361
Loss for the year		<u>-58 662 032</u>	<u>-45 423 069</u>
Attributable to			
Owners of the parent		-58 662 032	-45 423 069
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>-58 662 032</u>	<u>-45 423 069</u>

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

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 €	2011 €
Loss for the year		-58 662 032	-45 423 069
Other comprehensive income			
Exchange differences on translation of foreign operations		3 324 571	-592 062
Other comprehensive income for the year		<u>3 324 571</u>	<u>-592 062</u>
Total comprehensive income for the year		<u><u>-55 337 461</u></u>	<u><u>-46 015 131</u></u>
Attributable to			
Owners of the parent		-55 337 461	-46 015 131
Non-controlling interests		-	-
		<u><u>-55 337 461</u></u>	<u><u>-46 015 131</u></u>

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

Consolidated statement of financial position

as at 31 December 2012

	Note	2012 €	2011 €
Assets			
Non-current assets			
Intangible assets	9	7 470 667	4 014 000
Property, plant and equipment	10	15 055 043	5 717 575
Other non-current assets	11	<u>5 168 842</u>	<u>1 370 085</u>
		27 694 552	11 101 660
Current assets			
Trade and other receivables	12	28 051 008	24 387 576
Prepayments and accrued income	12	32 437 580	21 020 191
Other current assets	12	12 707 623	2 019 084
Cash and cash equivalents	13	<u>167 470 857</u>	<u>104 271 498</u>
		240 667 068	151 698 349
Total assets		<u>268 361 620</u>	<u>162 800 009</u>
Equity and liabilities			
Equity			
Share capital	14,15	77 202	72 975
Other paid in capital	14,15	242 884 112	156 093 646
Other reserves	14,15	7 925 241	6 277 191
Retained earnings		<u>-147 646 759</u>	<u>-93 918 084</u>
Total equity		<u>103 239 796</u>	<u>68 525 728</u>
Deferred tax	8	1 964 785	1 123 920
Current liabilities	16		
Trade and other payables		35 128 511	24 779 745
Other current liabilities		13 725 062	5 273 303
Income tax payable		241 081	1 244 380
Deferred revenue		28 499 232	19 849 897
Other accrued expenses and deferred income		72 194 705	33 729 692
Provisions	17	<u>13 368 448</u>	<u>8 273 344</u>
		163 157 039	93 150 361
Total liabilities		<u>165 121 824</u>	<u>94 274 281</u>
Total equity & liabilities		<u>268 361 620</u>	<u>162 800 009</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	Retained earnings	Total
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					
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
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
12 months ended					
31 December 2012					
1 January 2012	72 975	156 093 646	6 277 191	-93 918 084	68 525 728
Loss attributable to shareholders of parent company				-58 662 032	-58 662 032
Other comprehensive income			3 324 571		3 324 571
Total Comprehensive income			3 324 571	-58 662 032	-55 337 461
Transactions with Owners					
Reclassification of equity component of shareholder loan			-1 676 521	1 676 521	0
Options exercised		-18 730			-18 730
Issue of new shares	4 227	86 809 196			86 813 423
Share based payment				3 256 836	3 256 836
31 December 2012	77 202	242 884 112	7 925 241	-147 646 759	103 239 796

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

Consolidated statement of cash flows

for the year ended 31 December 2012

		2012 €	2011 €
	Note		
Operating activities			
Loss before tax		-56 743 908	-44 523 708
<i>Non-cash adjustment to reconcile profit before tax</i>			
Foreign exchange gain/ losses		1 781 045	-3 703 560
Depreciation of equipment	10	3 229 697	1 372 014
Depreciation of intangible assets	9	5 562 333	2 852 000
Share-based payment transaction expense	15	3 256 836	1 614 430
Loss on disposal of equipment	10	-	71 009
Finance income	7	-87 937	-171 926
Finance costs	7	1 647 880	1 551 312
<i>Working capital adjustments</i>			
Increase in trade and other receivables and prepayments		-19 154 299	-30 962 107
Increase in trade and other payables		63 714 028	57 955 782
Interest received	7	87 937	84 939
Interest paid	7	-1 647 880	-
Income tax paid		-2 112 549	-120 582
Net cash flows from operating activities		-466 817	-13 980 397
Investing activities			
Purchase of equipment	10	-12 443 610	-5 461 400
Development expenditures	9	-9 019 000	-4 374 000
Other non-current assets	11	-3 798 758	-
Net cash flows used in investing activities		-25 261 368	-9 835 400
Financing activities			
Proceeds from exercise of share options		1 038 731	-491 022
Issue of new shares		85 755 963	79 906 301
Net cash flow from/(used in) finance activities		86 794 694	79 415 279
Net increase in cash and cash equivalents		61 066 509	55 599 482
Net foreign exchange difference		2 132 850	1 420 044
Cash and cash equivalents at 1 January	13	104 271 498	47 251 972
Cash and cash equivalents at 31 December	13	<u>167 470 857</u>	<u>104 271 498</u>

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

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 millions of 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 2012 were authorized for issue with a resolution of the directors on 20 May 2013 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 Foreign exchange gains and losses in 2011 that relate to the operation have been reclassified from Finance income to Operating income Agency fee was prior year accounted for net in the Ads revenue and is now accounted for gross with Agency fee as a cost of sales and is adjusted for in 2011 Accrued Ad revenue and Advances to rights holders where prior year accounted for in Other current assets and is now accounted for in Prepayments and accrued income

Going concern

Having reviewed the Group's liquid resources and the Group's 2013 and 2014 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 2012 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 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. The Group is currently assessing the impact that this standard will have on the financial position and performance.

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

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

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance. These amendments become effective for annual periods beginning on or after 1 January 2013.

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, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the 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. For companies within EU they are postponed until 1 January 2014.

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

This standard becomes effective for annual periods beginning on or after January 2013. For companies within EU they are postponed until 1 January 2014.

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 effective for annual periods beginning on or after January 2013.

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

IAS 27 Separate Financial Statements (as revised 2011)

For companies within EU these revised standards become effective for annual periods beginning on or after 1 January 2014.

IAS 28 Investments in Associates and Joint Ventures (as revised 2011).

For companies within EU these revised standards become effective for annual periods beginning on or after 1 January 2014.

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 will have no impact on the financial position and performance of the group.

This standard becomes effective for annual periods beginning on or after January 2013. For companies within EU they are postponed until 1 January 2014.

Since Spotify only presents consolidated accounts and no separate Financial Statements and does not have any investments in associates, joint ventures and joint arrangements, IAS 27, IAS 28 IFRS 11 are not applicable.

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 aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Identifiable intangible 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 intangible 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 consolidated 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".

Adjustments for depreciation and working capital in the consolidated statement of cash flow are presented excluding foreign exchange gains and losses. Foreign exchange gains and losses related to depreciation and working capital are presented net on a separate line in the consolidated statement of cash flow.

(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.

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 Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income

Segment reporting

Since Spotify is not a listed company Segment Reporting is not presented

Earnings per share

Since Spotify is not a listed company Earnings per share is not presented

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

Sales of advertisements

The Group sells advertisements on its service Advertising revenue is 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

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 is 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 rights holders Royalty is accounted for in accordance with agreements and treated as an expense in the consolidated income statement when they occur

Pension plans

All pension plans within the Group correspond to local legal requirements and are classified as defined contribution plans and accounted for as an expense in the consolidated income statement when they occur

Current assets and current liabilities

All current assets and current liabilities are 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

Property, plant and equipment

Property, plant and 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 property, plant and 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

Computers and office equipment 20% - 33% per annum

Leasehold improvements 20% 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 consolidated income statement

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 consolidated 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 lives and are 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 consolidated 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 consolidated 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 year period.

The Group did not record any significant impairment during 2012.

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 consolidated 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 consolidated 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 income statement, 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 income statement 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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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

Information about subsidiaries

Name of company	Holding	Proportion of voting rights and shares held	Country of registration
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 Italy S R L	Ordinary shares	100%	Italy
Spotify Canada Inc	Ordinary shares	100%	Canada
Spotify Japan K K	Ordinary shares	100%	Japan
Spotify Poland SP Z o o	Ordinary shares	100%	Poland
Spotify Services AB	Ordinary shares	100%	Sweden
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 2012 consist of the investment in Spotify Italy S R L, Spotify Japan K K, Spotify Poland SP Z o o and Spotify Services AB. 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 to the consolidated financial statements

2. Revenue

The breakdown of the revenue is as follows

	2012 €	2011 €
Analysis of revenue by category		
Sales of advertisements	59 647 059	30 123 838
Sales of subscriptions	368 755 105	156 892 221
Other revenues	6 296 149	3 340 937
Total	434 698 313	190 356 996

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 rights holders, cost of distribution of the service and transaction costs

4. Other operating income

	2012 €	2011 €
Other operating income		
Net foreign exchange gains	-	3 703 449
Total	-	3 703 449

5. Personnel expenses

	2012 €	2011 €
Personnel expenses		
Wages and salaries	48 211 372	16 994 858
Social security expenses	15 488 984	4 531 700
Contributions to defined contribution plans	718 361	296 914
Other personnel expenses	562 144	2 618 574
Total	64 980 860	24 442 046
 Average full time employees	 660	 311

Director's remuneration during the year was € 331 686 (2011 € 184 634)

6. Other external expenses

	2012	2011
	€	€
Other external expenses		
Premises	7 102 529	2 963 653
Consumable equipment	2 570 131	1 736 434
Travel expenses	6 986 327	2 986 288
Advertising and PR	6 059 594	1 876 055
Sales expenses	1 461 538	524 043
Telephone and communications	1 212 941	584 593
Externally bought services	18 720 693	7 992 255
Other external expenses	2 848 342	3 839 820
Net foreign exchange losses	4 048 492	-
Total	<u>51 010 587</u>	<u>22 503 141</u>

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

	2012	2011
	€	€
Audit fees		
Assurance services	293 000	157 000
Tax advisory services	345 000	33 000
Non-audit services	72 000	138 000
Total	<u>710 000</u>	<u>328 000</u>

7. Finance Costs/Income - net

	2012	2011
	€	€
Finance Income		
Interest income on financial assets measured at amortised cost	87 937	171 926
Net foreign exchange gains	-	111
Total	<u>87 937</u>	<u>172 037</u>
Finance costs		
Interest expense on financial liabilities measured at amortised cost	-1 647 880	-1 551 312
Net foreign exchange losses	-2 319 167	-
Total	<u>-3 967 047</u>	<u>-1 551 312</u>
Finance Costs - net	<u>-3 879 110</u>	<u>-1 379 275</u>

8. Tax

(a) Tax on loss on ordinary activities

	2012 €	2011 €
Current income tax		
Current income tax charge	-1 077 259	-473 201
Deferred tax		
Relating to origination and reversal of temporary differences	-840 865	-426 160
Income tax expense reported in the Income statement	-1 918 124	-899 361

(b) Factors affecting the tax charge for the year

A reconciliation between tax expense and the accounting loss multiplied by Luxembourg's domestic tax rate for the years ended 31 december 2012 and 2011 is as follows

	2012 €	2011 €
Accounting loss before income tax	-56 743 908	-44 523 708
Expected average of 28,8% (2011 28,8%)	-16 342 246	-12 822 828
Non deductible expenses	-1 691 320	-602 848
Adjustments for other tax rates	-2 071 702	-1 859 588
Tax effect due to losses not recognized	18 187 143	14 385 903
At the effective income tax rate of 3,4% (2011 2,0%)	-1 918 124	-899 361

(c) Deferred tax

The Group has tax losses of € 137 015 539 (2011 € 73 865 736) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

	2012 €	2011 €
Deferred tax		
As at 1 January	1 123 920	697 760
Tax expense during the period recognised in profit and loss	840 865	426 160
At 31 December	1 964 785	1 123 920

9. Intangible assets

Capitalised development costs amortised over their useful life

	2012 €	2011 €
Acquisition value		
As at 1 January	8 556 000	4 182 000
Additions	9 019 000	4 374 000
At 31 December	17 575 000	8 556 000
Accumulated depreciation		
At 1 January	-4 542 000	-1 690 000
Depreciation	-5 562 333	-2 852 000
At 31 January	-10 104 333	-4 542 000
Carrying amount		
Net book value at 31 December	7 470 667	4 014 000

10 Property, plant and equipment

Computers and office equipment	2012 €	2011 €
Acquisition value		
As at 1 January	8 146 406	2 879 764
Additions	9 203 599	5 461 400
Disposals	-	-79 855
Foreign currency exchange differences	120 487	-114 903
At 31 December	17 470 492	8 146 406
Accumulated depreciation and impairment		
At 1 January	-2 428 831	-1 191 193
Annual depreciation	-2 894 240	-1 372 014
Disposals	-	8 846
Foreign currency exchange differences	-38 473	125 530
At 31 January	-5 361 544	-2 428 831
Carrying amount		
Net book value at 31 December	12 108 948	5 717 575

10. Property, plant and equipment (continued)

Leasehold improvements	2012	2011
	€	€
Acquisition value		
As at 1 January	-	-
Additions	3 240 011	-
Disposals	-	-
Foreign currency exchange differences	46 340	-
At 31 December	<u>3 286 351</u>	<u>-</u>
Accumulated depreciation and impairment		
At 1 January	-	-
Annual depreciation	-335 457	-
Disposals	-	-
Foreign currency exchange differences	-4 798	-
At 31 January	<u>-340 255</u>	<u>-</u>
Carrying amount		
Net book value at 31 December	<u>2 946 095</u>	<u>-</u>
Total net book value Property, plant and equipment	<u>15 055 043</u>	<u>5 717 575</u>

11. Other non-current assets

	2012	2011
	€	€
Other non-current assets		
Lease deposits Europe	760 594	1 222 979
Lease deposits USA	3 953 530	124 286
Lease deposits Rest of World	151 558	22 820
Amex deposit USA	303 160	-
Total	<u>5 168 842</u>	<u>1 370 085</u>

Deposits refer to payments made to lessors and deposit to American Express (Amex)

12. Trade and other receivables

	2012 €	2011 €
Trade and other receivables		
Trade receivables	28 051 008	24 387 576
Prepaid rent	1 294 389	516 749
Other prepaid expenses	3 928 575	2 606 443
Accrued income	14 877 121	935 073
Accrued ad revenue	6 313 567	1 483 019
Advances to rights holders	6 023 928	15 478 907
Other receivables	12 707 623	2 019 084
Total	73 196 211	47 426 851

Maturity analysis for trade receivables are disclosed in note 21

Accrued income relates to parts of the sale of partner subscriptions which is invoiced and paid in arrears

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 mentioned above. The Group does not hold any collateral as security

13. Cash and cash equivalents

	2012 €	2011 €
Cash at bank and on hand	<u>167 470 857</u>	<u>104 271 498</u>

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

14 Issued share capital and reserves

	2012 €	2011 €
Share capital		
At 1 January	72 975	62 303
Issued shares	4 227	10 672
At 31 December	77 202	72 975

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 € 4 226 (2011: € 10 672) by the issue of 169 071 (2011: 426 907) ordinary shares of € 0,025 each (2011: € 0,025) and a share premium increase by € 86 809 196. As of December 31, 2012 the authorised and fully paid share capital amounted to € 77 202 (€ 72 975) represented by 3 088 092 ordinary shares of € 0,025 each.

14. Issued share capital and reserves (continued)

The table below is showing the change in Number of shares, Share capital and Share premium for the parent company Spotify Technology S A

	Number of ordinary shares	Share capital	Share premium	Total
At 31 December 2008	1 956 531	48 913	1 603 014	1 651 927
Share issues	413 583	10 340	50 908 324	50 918 664
At 31 December 2009	2 370 114	59 253	52 511 338	52 570 591
Share issues	122 000	3 050	678 526	681 576
At 31 December 2010	2 492 114	62 303	53 189 864	53 252 167
Share issues	426 907	10 673	102 428 276	102 438 949
At 31 December 2011	2 919 021	72 976	155 618 140	155 691 116
Share issues	169 071	4 227	86 811 089	86 815 316
At 31 December 2012	3 088 092	77 202	242 429 230	242 506 432

Other reserves

	2012 €	2011 €
Other reserves		
At 1 January	6 277 191	6 869 253
Reclassification of shareholders loan	-1 676 521	-
Currency translation differences	-3 324 571	-592 062
At 31 December	1 276 099	6 277 191

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. Conversion of the shareholder loan forces recycling of the equity portion of the loan over Other reserves.

15. Share-based payment plans

The exercise price for the options is pre-determined at grant and remains the same during the 5-year term of the option program. The exercise price is based on a fair market valuation concluded by an external financial firm. The first vesting (25% of the initial grant) occurs 6 months from grant date. The remaining options then vests with 6,25% each following quarter until fully vested. There is one annual exercise window in September each year where vested options can be exercised, plus a longer exercise period towards the end of the 5-year option term.

Share Appreciation Rights

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

	2012 €	2011 €
Expense arising from share-based payment transactions		
Expense arising from equity-settled share-based payment transactions	3 256 836	1 614 430
Total	3 256 836	1 614 430

There have been no cancellations, repurchases or modifications to any of the plans during 2012 or 2011.

In 2011 5 000 options were repurchased for a total amount of 491 012 EUR.

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.

	2012 No	2012 WAEP	2011 No	2011 WAEP
Outstanding at 1 January	164 915	203,42	42 278	88,18
Cancelled pool	-20 467	207,30	-6 360	58,30
Granted during the year (net)	47 262	414,76	135 800	231,26
Bought from warrant	-	-	-5 000	58,30
Exercised during the year	-36 961	106,15	-1 803	58,30
Outstanding at 31 December	154 749	266,95	164 915	203,42
Exercisable at 31 December	-	-	-	-

The weighted average contractual life for the share options outstanding as at 31 December 2012 is four (2011: four) years.

The weighted average fair value of options granted during the year was € 427,66 (2011: € 267,32).

The exercise prices for options outstanding at the end of the year were (converted to euro at ending balance rate as per December 31) € 187,12 - 519,46 (2011: € 58,30 - 267,32).

15. Share-based payment plans (continued)

The following tables list the inputs to the models used for June and November 2012 and December 2011

	2012	2011
Expected volatility (%)	30	30
Risk-free interest rate (%)	0,19-0,65	2,68
Expected life of share options (years)	4,75-5,33	4,75
Weighted average share price (€)	361,16-519,46	267,32
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. The base for the risk-free rate have been changed from STIBOR to EUROBOR since it better reflects the business of Spotify.

16. Current liabilities

	Note	2012 €	2011 €
Current liabilities			
Trade payables		35 128 511	24 779 745
Other current liabilities		2 125 405	558 417
VAT payable		10 931 832	4 714 886
Income tax payable		241 082	1 244 380
Deferred ad revenue		131 716	1 186 845
Deferred premium revenue		28 367 515	18 663 052
Accrued fees to rights holders		57 070 081	25 122 337
Other accrued expenses		5 915 896	4 300 763
Accrued holiday pay, social fees holiday pay		2 187 563	1 083 091
Accrued social fees - options		7 021 166	302 075
Employee liabilities		667 824	2 921 426
Provisions	17	13 368 448	8 273 344
Total		163 157 039	93 150 361

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 21.

17 Provisions

Change in provision for unrecoverable Royalty costs

	31-dec 2012	31-dec 2011
	€	€
Carrying amount at 1 January	8 273 344	-
Utilised	-4 531 924	-
Provision for unrecoverable Royalty costs	9 545 224	8 273 344
Exchange rate differences	81 804	-
Carrying amount at 31 December	<u>13 368 448</u>	<u>8 273 344</u>

18. 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.

	2012	2011
	€	€
Lease payments recognised as expense	5 886 796	2 202 877
Total	<u>5 886 796</u>	<u>2 202 877</u>

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

	2012	2011
	€	€
Not later than one year	4 995 935	4 108 439
Later than year but not more than 5 years	9 583 680	1 870 863
More than 5 years	-	-
Total	<u>14 579 615</u>	<u>5 979 302</u>

19. Commitments and contingencies

	2012	2011
	€	€
Bank guarantees	279 691	265 516
Total	<u>279 691</u>	<u>265 516</u>

Bank guarantees are related to rental guarantees for Spotify AB

20. Contractual obligations

The future minimum royalties payable are € 55 995 974 as of December 31, 2012 (2011: € 120 839 293)

21. Financial risk management objectives and policies

The Group financial liabilities are trade and other payables and financial assets are trade, other 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 2012 and 31 December 2011

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

	31-dec 2012	31-dec 2011
Trade and other payables (Note 15)	35 128 511	24 779 745
Less cash and short-term deposits (Note 12)	<u>-167 470 857</u>	<u>-104 271 498</u>
Net debt	-132 342 346	-79 491 753
Equity	<u>103 239 796</u>	<u>68 525 728</u>
Capital and net debt	-29 102 550	-10 966 025
Gearing ratio	455%	725%

21. Financial risk management objectives and policies (continued)

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 2012 the maximum exposure to credit risk from trade and other receivables was € 28 051 008 (2011: € 24 387 576). Financial assets that were past due or impaired at 31 December 2012 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 2012 and 31 December 2011

Net amount after impairment

	2012	Impairment shown gross 2012	2011	Impairment shown gross 2011
	€	€	€	€
Not yet due	10 426 263	-	15 190 537	-
Overdue 0 - 30 days	7 793 105	-	6 616 779	-
Overdue 31 - 60 days	4 375 116	-362 260	1 299 877	-
Overdue 61 - 90 days	3 002 260	-272 150	1 226 262	-279 319
Overdue > 91 days	2 454 264	-2 399 007	54 121	-1 919 086
Total	28 051 008	-3 033 416	24 387 576	-2 198 405

Change in provision for bad debts

	31-dec 2012 €	31-dec 2011 €
Carrying amount at 1 January	2 198 405	146 217
Receivables written off	-136 464	-13 327
Unused amounts reversed	-2 061 941	-132 890
Provision for bad debt	3 499 316	2 198 405
Exchange rate differences	-16 024	-
Carrying amount at 31 December	3 483 291	2 198 405

In determining the recoverability of a trade and other receivables, the Group carries out a risk analysis based on the type and age of the outstanding receivable.

21. Financial risk management objectives and policies (continued)

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

Maximum credit risk as at 31 December 2012 and 31 December 2011

	31-dec 2012 €	31-dec 2011 €
Other non-current assets	5 168 842	1 370 085
Accrued receivables from uncompleted contracts	14 877 121	935 073
Receivables	28 051 008	24 386 932
Other receivables	4 437 685	1 998 949
Total	52 534 656	28 691 039

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 year end date

	Carrying amount €	Contractual cash flow €	Due in 0-6 months €
December 31, 2012			
Trade and other payables	35 128 511	35 128 511	35 128 511
Total	35 128 511	35 128 511	35 128 511

	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
Total	24 779 745	24 779 745	24 779 745

21. Financial risk management objectives and policies (continued)

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-dec-12 €	Fair value 31-dec-12 €	Carrying amount 31-dec-11 €	Fair value 31-dec-11 €
Financial assets				
Trade receivables	28 051 008	28 051 008	24 387 576	24 387 576
Other receivables	45 145 203	45 145 203	23 039 275	23 039 275
Cash and cash equivalents	167 470 857	167 470 857	104 271 498	104 271 498
Financial liabilities				
Trade payables	35 128 511	35 128 511	24 779 745	24 779 745
Other liabilities	114 418 999	114 418 999	58 852 892	58 852 892

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.

21. Financial risk management objectives and policies (continued)

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, NOK, DKK, CHF, AUD, HKD, CAD, JPY, PLN and SGD during 2012 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	-7 013 917	-3 506 958	3 506 958	7 013 917
Total liabilities	-15 360 573	-7 680 287	7 680 287	15 360 573
Total assets	482 072	241 036	-241 036	-482 072

Interest rate risk

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

22. 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 Board and employee services is shown below. Compensation and remuneration to key management for the group has been paid from Spotify AB. All compensation to key management refers to Director Daniel Ek and Martin Lorentzon. There are no pension- or severance agreements between the Company and the key management. The key management are not participants in the Group's share option scheme.

	2012 €	2011 €
Key management compensation		
Daniel Ek	228 294	184 634
Martin Lorentzon	103 392	-
Total	331 686	184 634

23. Events after the reporting year

The Group has ambitious growth plans. On April 2013, the Group launched in 8 new markets Mexico, Hong Kong, Malaysia, Singapore, Estonia, Latvia, Lithuania and Iceland which gives a total of 28 markets.

The share capital has been increased further with € 7,25 and share premium with € 62 911 by the issue of 290 shares in February 2013.