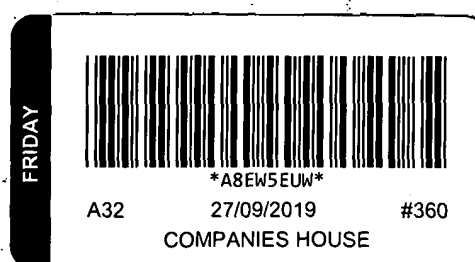


SPOTIFY Limited.

Reg. Nr. 06436047

Report and Financial Statements for the

Year 31 December 2018



SPOTIFY Ltd.
Registered number 06436047

Spotify Ltd. Registered number 06436047.

The Company is incorporated in England and Wales

Company number: 06436047

Registered office: The Adelphi,
1-11 John Adam Street,
London,
WC2N 6HT

Current Directors: Barry McCarthy JR
Thomas Wolfe Tone Connaughton
Peter Grandelius

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

SPOTIFY Ltd.
Registered number 06436047

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SPOTIFY Ltd.
Registered number 06436047

Strategic report for the year ended 31 December 2018

General business information

Spotify is the largest global music streaming subscription service that provides millions of people around the world access to over 40 million tracks, whenever and wherever they want. Our mission is to unlock the potential of human creativity by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by these creators. Spotify Ltd (the "Company") is wholly owned by Spotify AB which has its registered office in Sweden.

Review of business and future developments

During the reported period the principal activity of the Company is the resale of advertising inventory to third parties and to provide support services to its' parent, Spotify AB. The Company generates third party advertising revenues as well as intercompany revenues from the provision of services to Spotify AB.

Total revenue decreased from £107 096 437 to £77 782 396. This was primarily a result of decreased pass-through costs from the Company to Spotify AB. Going forward, the Company's main revenues will continue to be reselling from advertising inventory and providing services to Spotify AB.

Principal risks and uncertainties

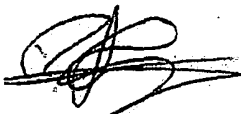
Streaming music is an emerging market, which makes it difficult to evaluate our current and future prospects. We face strong competition both for users, listening hours, and advertiser spending, and we face competition from players with substantial resources at their disposal. We depend on acquiring content licenses from a limited number of major and minor content owners and other rights holders in order to provide our service. We depend on key personnel to develop great products and services, as well as to operate our business, and if we are unable to retain, attract, and integrate qualified personnel, our ability to successfully grow our business could be harmed. If we cannot maintain Spotify's culture as we grow, we could lose the innovation, teamwork, and focus that contribute crucially to our business.

Financial risk management objectives and policies

Our operations are exposed to financing and financial risks, which are managed under the control and supervision of the Board of Directors of the Company. To manage these risks efficiently, we have established guidelines in the form of a treasury policy that serves as a framework for the daily financial operations of the Spotify group. The treasury policy stipulates the rules and limitations for the management of financial risks within the Company.

Further information on risks and uncertainties is given in note 18 of the financial statements.

On behalf of the board



Peter Grandelius

Director

Date: 26th September 2019

SPOTIFY Ltd.
Registered number 06436047

Report of the Directors for the year ended 31 December 2018

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

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 2019 and 2020 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.

Results and dividends

The Company generated a profit for the year after taxation of £6 819 890 (2017: £3 494 583). No dividends were declared or proposed for the year ended 31 December 2018 (2017: £nil).

Political donations

The Company made no political donations for the year ended 31 December 2018 (2017: £nil).

Directors

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

Barry McCarthy JR
Jens Christian Grejs Svolgaard (resigned on 15 April 2019)
Thomas Wolfe Tone Connaughton
Peter Grandelius (appointed on 15 April 2019)

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

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



Peter Grandelius
Director

Date: 26th September 2019

SPOTIFY Ltd.

Registered number 08436047

Statement of Directors' responsibilities

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

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

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

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

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

SPOTIFY Ltd.
Registered number 06436047

Independent Auditor's report to the members of Spotify Limited

Opinion

We have audited the financial statements of Spotify Limited for the year ended 31 December 2018 which comprise Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 21, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

SPOTIFY Ltd.

Registered number 06436047

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept by the parent Company, 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern; disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

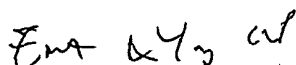
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



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

Date 26 September 2019

SPOTIFY Ltd.
Registered number 06436047

**Statement of comprehensive Income
For the year to 31 December 2018**

	Not e	2018 £	2017 £
Continuing operations			
Revenue	4	77 782 396	107 096 437
Cost of sales		-	(31 558 324)
Gross profit		77 782 396	75 538 113
Distribution costs		(4 166 339)	(12 470 240)
Administrative expenses		(68 873 095)	(58 634 090)
Other operating income		885 339	206 475
Other operating expenses		(115 373)	-
Profit on sale of intangible asset	7	4 947 325	-
Operating profit	7	10 460 253	4 640 258
Finance income	5	312	172 614
Finance costs	5	(885 650)	(426 864)
Finance costs - net		(885 338)	(254 250)
Profit before tax from continuing operations		9 574 915	4 386 008
Income tax charge	9	(2 755 025)	(891 425)
Profit for the year		6 819 890	3 494 583

The accompanying notes are an integral part of this statement of comprehensive income. The profit for the year is attributable to owners of the Company.

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

They were signed on its behalf by:



Peter Grandelius
Director

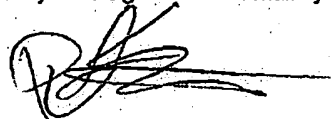
SPOTIFY Ltd.
Registered number 06438047

**Statement of financial position
For the year to 31 December 2018**

	Note	2018 £	2017 £
ASSETS			
Non-current assets			
Property, plant and equipment	13	17 308 226	5 039 441
Investments	14	16 284 336	16 292 598
Other non-current assets	15	970 339	1 120 139
		<u>34 562 901</u>	<u>22 452 178</u>
Current assets			
Trade and other receivables	12	22 759 292	83 810 185
Deferred Tax Assets	9	3 575 334	5 302 835
		<u>26 334 626</u>	<u>89 113 020</u>
Total assets		60 897 527	111 565 198
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		(123 883)	(123 883)
Deferred liabilities	19	(7 199 095)	(2 771 399)
		<u>(7 322 978)</u>	<u>(2 895 282)</u>
Current liabilities			
Cash overdraft	11	-	(87 678 147)
Trade and other payables and other current liabilities	16	(40 518 184)	(15 204 121)
Income tax payable	9	(1 244 862)	(5 290 959)
		<u>(41 763 046)</u>	<u>(108 173 227)</u>
Net assets		11 811 503	496 689
EQUITY			
Share capital	17	1 000	1 000
Shareholder contributions		14 544 300	14 544 300
Retained earnings		(2 733 797)	(14 048 611)
Total equity		11 811 503	496 689

The accompanying notes are an integral part of this Statement of financial position. The financial statements of Spotify Limited, on pages 6 to 30 were approved by the Board of Directors and authorised for issue on September 26, 2019

They were signed on its behalf by:



Peter Grandellus
Director

SPOTIFY Ltd.
Registered number 06436047

Statement in changes in equity
For the year to 31 December 2018

Attributable to equity holders of the Company

	Share capital £	Shareholder contributions £	Retained earnings £	Total Equity £
Balance at 31 December 2016	1 000	14 544 300	(21 393 390)	(6 848 090)
Share based payment charge	-	-	1 359 074	1 359 074
Total comprehensive profit for the year in 2017	-	-	3 494 583	3 494 583
Current tax recorded directly in equity (note 9)	-	-	296 800	296 800
Deferred tax recorded directly in equity (note 9)	-	-	2 194 322	2 194 322
Balance at 31 December 2017	1 000	14 544 300	(14 048 611)	496 689
Share based payment charge	-	-	3 376 873	3 376 873
Total comprehensive profit for the year in 2018	-	-	6 819 890	6 819 890
Current tax recorded directly in equity (note 9)	-	-	2 211 031	2 211 031
Deferred tax recorded directly in equity (note 9)	-	-	(1 092 980)	(1 092 980)
Balance at 31 December 2018	1 000	14 544 300	(2 733 797)	11 811 503

SPOTIFY Ltd.
Registered number 06436047

Statement of cash flows for the year to 31 December 2018

	Note	2018 £	2017 £
Operating activities			
Profit after tax from continuing operations		6 819 890	3 494 583
Income tax		(2 862 590)	(1 728 361)
Depreciation	12	4 166 339	12 470 240
Profit on sale of intangible asset		(4 947 325)	-
(Loss)/Gain on disposal of property, plant and equipment	12	(115 350)	164 984
Share based payment charge		3 376 873	1 359 074
Interest expense	5	1 703 560	33 025
		8 141 397	15 793 545
Working capital adjustments			
Decrease/(Increase) in receivables		61 050 893	12 231 624
Increase/(Decrease) in payables		30 667 759	(62 186 094)
		91 718 652	(49 954 470)
Interest received		312	172 614
Net cash flows from/(used in) operating activities		109 755 011	(33 988 311)
Investing activities			
Purchase of property, plant and equipment	12	(17 361 124)	(827 664)
Proceeds from disposals of property, plant and equipment		538 084	514 174
Disposal of Investment		8 262	-
Acquisition of investments		-	(15 916 022)
Proceeds from the sale of intangible asset		5 043 000	-
Net cash flows (used in) investing activities		(11 771 778)	(16 229 512)
Financing activities			
Withdrawal/Deposit at bank		149 800	(149 800)
(Repayments)/Borrowings from overdraft		(87 678 147)	49 908 105
Net cash flows (used in)/from financing activities		(87 528 347)	49 758 305
Effects of exchange rates on cash and cash equivalents		(560 236)	459 518
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-
Supplemental non-cash activities			
Purchases of property, plant and equipment in payables		926 000	-

SPOTIFY Ltd.
Registered number 06438047

Note 1. Accounting policies

Basis of preparation

Spotify Limited is a Company limited by shares incorporated in England.

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 related Interpretations issued 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 publicly available.

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

Going concern

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

Having reviewed the Company and the Group's liquid resources and 2018 and 2019 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.

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.

(a) Sale of advertisements

The Company's advertising revenue is primarily generated through display, audio, and video advertising delivered through advertising impressions. The Group enters into arrangements with advertising agencies that purchase advertising on its platform on behalf of the agencies' clients. These advertising arrangements are typically sold on a cost-per-thousand basis and are evidenced by an Insertion Order ("IO") that specifies the terms of the arrangement such as the type of ad product, pricing, insertion dates, and number of impressions in a stated period. Revenue is recognized over time based on the number of impressions delivered. The Company also may offer cash rebates to advertising agencies based on the volume of advertising inventory purchased. These rebates are estimated based on expected performance and historical data and result in a reduction of revenue recognized.

Additionally, the Company generates revenue through arrangements with certain suppliers to distribute advertising inventory on their ad exchange platforms for purchase on a cost-per-thousand basis. Revenue is recognized over time when impressions are delivered on the platform.

SPOTIFY Ltd.
Registered number 08436047

Note 1. Accounting policies (continued)

Revenue recognition (continued)

(b) Sale of subscriptions

Subscription revenues associated with the Group are generally generated by Spotify AB. However, some legacy agreements with third party partners remain with the Company Partner subscription revenue is based on a per-subscriber rate in a negotiated partner agreement and may include minimum guarantees for the number of subscriptions that will be purchased from the Company. Under these arrangements, a premium partner may bundle the Premium Service with its existing product offerings or offer the Premium Service as an add-on. Payment is remitted to the Company through the premium partner. When a minimum guarantee is within an agreement and the partner is not expected to meet the commitment, management has concluded the revenue is constrained to the revenue amounts for the actual subscriptions sold in a given period. The Company therefore only recognizes the associated revenue when it is highly probable that this will not result in a significant reversal of revenue when the uncertainty is resolved. The Company assesses the facts and circumstances, including whether the partner is acting as a principal or agent, of all partner revenue arrangements and then recognizes revenues either gross or net. Premium partner services, whether recognized gross or net, have one material performance obligation, that being the delivery of the Premium Service.

(c) Intercompany revenues

Intercompany revenues are generated through the provision of services to Spotify AB. Certain third party cost of sales are correctly recorded with Spotify AB whereby the Company passes through those costs to Spotify AB.

(d) Interest income

Interest income is recognised using the effective interest method.

Cost of Sales

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

In addition to third party cost of sales the Company purchases advertising inventory from Spotify AB in its role as a reseller."

General and administrative expenses

General and administrative expenses are comprised primarily of employee compensation and benefits for functions such as finance, accounting, analytics, legal, human resources, consulting fees, and other costs including facility and equipment costs.

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 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.

After assets are placed into service, depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method as follows:

Note 1. Accounting policies (continued)

Property, plant and equipment (continued)

- Property, plant and equipment: 3 to 5 years.
- Leasehold improvements: shorter of the lease term or useful life.

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 13). 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

The Company uses the simplified approach for measuring impairment for its trade receivables as these financial assets do not have a significant financing component as defined under IFRS 15, *Revenue from Contracts with Customers*. Therefore, the Company does not determine if the credit risk for these instruments has increased significantly since initial recognition. Instead, a loss allowance is recognized based on lifetime expected credit losses at each reporting date. Impairment losses and subsequent reversals are recognized in profit or loss and is the amount required to adjust the loss allowance at the reporting date to the amount that is required to be recognized based on the aforementioned policy. The Company has established a provision matrix that is based on its historical credit loss experiences, adjusted for forward-looking factors specific to the debtors and the economic environment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of operations.

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.

Financial assets and liabilities

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

Trade and other receivables

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 expected credit losses.

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.

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.

Note 1. Accounting policies (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any evidence that a financial asset or a group of financial assets is impaired, primarily its trade receivables and short term investments. The Company assesses impairment for its financial assets, excluding trade receivables, using the general expected credit losses model. Under this model, the Company calculates the allowance for credit losses by considering on a discounted basis, the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance on the financial asset is the sum of these probability-weighted outcomes.

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 assets and liabilities

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

Cash and cash equivalents

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

Share capital

Ordinary shares are classified as equity.

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

Share-based payments

Employees receive remuneration in the form of share-based payment transactions, whereby employees render services in consideration for equity instruments.

The cost of equity-settled transactions with employees is determined by the fair value at the date of grant using an appropriate valuation model. The cost is recognised, together with a corresponding increase in accumulated deficit in equity over the period in which the performance is fulfilled.

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

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

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the grantee as measured at the date of modification. There have been no modifications to any share-based payment transactions.

Note 1. Accounting policies (continued)

Share-based payments (continued)

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Company or the grantee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally. There were no cancellations of awards during 2018 and 2017.

Social costs are payroll taxes associated with employee salaries and benefits, including share based compensation. Social costs in connection with the grant are accrued over the vesting period based on the intrinsic value of the award that has been earned as of the end of each reporting period. The amount of the liability reflects the amortisation of the award and the impact of expected forfeitures. The social cost rate at which the accrual is made follows the tax domicile within which other compensation charges for a grantee are recognised.

Defined contribution plans

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Current and deferred income tax

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. The present corporate income tax rate in the UK is 19.00% (2017: 19.25%).

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

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the

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manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Note 1. Accounting policies (continued)

Leases

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

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

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

Note 2. Changes in accounting policies and disclosures

Important accounting principles are summarized above in Note 1. Apart from the standards discussed below, new standards, as well as amendments and interpretations of existing standards which have been published and are mandatory for fiscal years beginning January 1, 2018 or later are not considered to be relevant to the or material to the Company.

New and amended

On January 1, 2018, the Company adopted International Financial Reporting Standard ("IFRS") 9, *Financial Instruments* which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Company concluded that the accounting treatment of its financial assets and financial liabilities under IAS 39 was in accordance with the requirements of IFRS 9 and, therefore, there was no material impact on the Company's consolidated financial statements upon adoption of the standard.

In June 2016, the International Accounting Standards Board ("IASB") issued three amendments to IFRS 2, *Share-based Payment*, in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice in three main areas: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and (iii) the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments are effective for accounting periods beginning on or after January 1, 2018. The Company has adopted the amendments to IFRS 2 as of January 1, 2018 and concluded the adoption had no material impact on the consolidated financial statements.

New standards and interpretations issued not yet effective

Recently issued new or revised/amended standards and interpretations effective for the Company on or after January 1, 2018 are as follows:

In January 2016, the IASB published IFRS 16, *Leases*, its new leasing standard which will replace the current guidance in IAS 17, *Leases*, and interpretations IFRIC 4, SIC-15 and SIC-27. The new standard requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. The EU has endorsed the standard.

On January 1, 2019, the Company will adopt IFRS 16 using the modified retrospective approach and recognize the cumulative effect of initially applying the standard as an adjustment to accumulated deficit. The Company intends to elect the available practical expedients on adoption. The most significant change from the adoption will be related to the recognition of right-of-use assets and lease liabilities on the consolidated statement of financial position for real estate operating leases, along with the net impact on transition recorded to accumulated deficit, and deferred tax assets, potentially unrecognized, resulting from the aforementioned changes. The Company expects that this will result in the recognition of additional assets and liabilities in excess of approximately £35 million. The Company's statement of operations after adoption will reflect additional depreciation expense due to

the right-of use assets and an increase in finance costs for effective interest expense on its lease liabilities and be partially offset by a reduction in rental expenses.

There are no other IFRS or IFRIC interpretations that are not effective that are expected to have a material impact.

Note 3. Critical accounting judgements and 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.

Estimates and judgments are continuously 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 18.

Share-based payments – The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Prior to April 3, 2018, the fair value was estimated using a model which required the determination of the appropriate inputs, specifically ordinary share price. Subsequent to the Group's direct listing, ordinary share price is no longer based on significant assumptions and estimates. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in Note 10.

Note 4. Revenue

The breakdown of the revenue is as follows:

	2018	2017
	£	£
Analysis of revenue by category:		
Sales of advertisements	23 899 799	19 989 726
Sales of subscriptions	259 336	1 703 316
Intercompany services	53 148 739	83 818 412
Other	474 522	1 584 983
Total	77 782 396	107 096 437

The majority of advertisements is attributable to the UK as disclosed in note 20.

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Note 5. Finance income and costs

	2018	2017
	£	£
Finance income		
Interest income on financial assets measured at amortised cost	312	172 614
Total	312	172 614
Finance costs		
Interest expense on financial liabilities measured at amortised cost	(1 005)	(33 025)
Intercompany Interest expense	(1 702 555)	-
Net foreign exchange gain/(loss)	817 910	(393 839)
Total	(885 650)	(426 864)
Finance income and costs	(885 338)	(254 250)

Note 6. Employee information

	2018	2017
	£	£
Wages and salaries	25 843 417	19 631 510
Social security costs	4 446 399	4 890 128
Share based compensation costs	3 376 873	1 359 074
Defined contribution plan costs	1 303 685	1 088 130
Total	34 970 374	26 968 842

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

Number of employees	285	236
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Directors' emoluments during the year were £nil (2017: £nil).

The directors of the Company are also directors of a number of subsidiaries of the ultimate parent undertaking. The directors do not believe that it is practicable to apportion the remuneration between remuneration as directors of the Company and their remuneration as directors of the fellow subsidiary companies. The director's remuneration is therefore disclosed in the accounts of the fellow subsidiaries that make the remuneration payments.

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Note 7. Operating profit

Operating profit is stated after charging/ (crediting):

	2018 £	2017 £
Depreciation on owned assets	4 166 339	12 470 240
Net foreign exchange (gains)/losses	(817 910)	393 839
Profit on sale of intangible asset	4 947 325	-
Loss/(profit) on disposal of property, plant and equipment	115 350	(164 984)
Operating lease rentals - Land and Buildings	12 715 982	6 971 075

The IP software asset relating to the Sonalytic tool, originally owned by Sonalytic Ltd., a wholly owned subsidiary of Spotify AB, was transferred to and subsequently sold by the Company to Spotify AB, in line with the Group's policy to centralise IP in its Swedish headquarters, where Spotify's IP is developed, enhanced, maintained, protected and exploited.

Note 8. Auditor's remuneration

Auditor's remuneration – audit

**audit remuneration is not recharged from the parent entity to the subsidiaries, instead it is covered by Transfer pricing*

17 253	11 000
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Note 9. Tax

(a) Tax on profit on ordinary activities

	2018 £	2017 £
Current income tax:		
Current income tax charge	2 528 762	2 467 285
Adjustments in respect of prior years	(406 256)	113 605
Total current tax	2 120 506	2 580 890
Deferred tax:		
Current year	429 734	(1 489 020)
Adjustment in respect of previous periods	153 806	(273 070)
Effect of changes in tax rates	50 979	72 625
Total deferred tax	634 519	(1 689 465)
Income tax expense reported in the statement of comprehensive income	2 755 025	891 425

Note 9. Tax (continued)

	2018	2017
	£	£
Equity Items		
Current tax	(2 211 031)	(296 800)
Deferred tax current year charge/(credit)	1 047 609	(2 194 322)
Deferred tax - prior year	45 371	-
	<u>(1 118 051)</u>	<u>(2 491 122)</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is different from the average UK standard rate of corporation tax of 19.00% (2017: 19.25%). The differences are explained as follows:

	2018	2017
	£	£
(Loss)/Profit on ordinary activities for the year before tax	9 574 915	4 386 008
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00 (2017: 19.25%)	1 819 234	844 156
Effects of:		
Non-deductible expenses	714 530	241 670
Share option current tax equity	2 211 031	-
Share options	(1 777 361)	(107 561)
Tax rate changes	50 979	72 625
Effects of group relief/ other reliefs	(10 937)	-
Adjustments in respect of prior years	(252 450)	(159 465)
Roundings	(1)	-
Total tax charge for the year	<u>2 755 025</u>	<u>891 425</u>

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the United Kingdom is currently 19%. The Finance Act 2016 was substantively enacted on 15 September 2016 and a reduction in the main rate of corporation tax to 17% will be in effect from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the enacted tax rate of 17% and reflected in these financial statements.

The future reductions in the rate of UK corporation tax will reduce the amount of any corporation tax payable by the Company in future years.

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Note 9. Tax (continued)

(d) Deferred tax relates to the following:

	Statement of financial position		Statement of Income	
	2018	2017	2018	2017
	£	£	£	£
Share based payment	1 769 483	2 988 549	(126 085)	187 260
Fixed Assets	1 761 296	2 217 932	(336 106)	1 504 141
Temporary differences trading	44 555	96 354	(18 522)	1 500
Prior year charge	-	-	(153 808)	273 070
Tax losses	-	-	-	(276 506)
Net deferred tax assets	3,575,334	5 302 835	634 519	1 689 465

£634,519 have been recognized in the Statement of Income and £1,092,980 have been recognized in Retained Earnings.

At December 31, 2018 there are no unrecognized deferred taxes.

Note 10. Share based payments

On February 28, 2018, the Board of Directors of the Group approved a 40-to-one share split of the Group's ordinary shares which became effective on March 14, 2018. All share and per share information included in the note below has been adjusted to reflect this share split.

Restricted Stock Unit Program (RSUP)

During 2014, the Company implemented a Restricted Stock Unit (RSU) Program that granted RSUs to certain employees (accounted for as equity-settled share-based payment transactions).

The valuation of the RSU on the grant date was consistent with the Group's use of the PWERM to value its own shares prior to April 3, 2018. On April 3, 2018, the Group completed a direct listing of its ordinary shares on the NYSE. The fair value of the Group's ordinary shares subsequent to the direct listing is based on the NYSE closing ordinary share price.

	RSU	WAEP
	Number of RSUs	
Outstanding at 1 January 2018	11 560	N/A
Transferred out	(9 920)	N/A
Outstanding at 31 December 2018	1 640	N/A

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Note 10. Share based payments (continued)

Employee share option plans

Under the Employee Share Option Plans ("ESOP"), share options of the Company are granted to executives and certain employees of the Group.

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

For options granted prior to January 1, 2016, the exercise price is equal to the fair value of the shares on grant date for employees in the United States and for U.S. citizens and fair value less 30% for the rest of the world. The value of the discount is included in the grant date fair value of the award. For options granted thereafter, the exercise price of the options is equal to the fair value of the shares on grant date for all employees. Generally, the first vesting period (13.5% – 25% of the initial grant) is up to one year from the grant date and subsequently vests at a rate of 6.25% each quarter until fully vested. The exercise price for options is payable in the EUR value of a fixed USD amount; therefore, the Group considers these awards to be USD-denominated. The options are generally granted with a term of 5 years.

Reconciliation of option movements over the year:

	ESOP Number of options	WAEP US\$
Outstanding at 1 January 2017	402 080	31,95
Granted	216 920	67,83
Forfeited	(66 280)	41,15
Exercised	(85 200)	22,18
Expired	(6 200)	34,30
Transferred in	21 760	43,95
Transferred out	(12 760)	35,65
Outstanding at 31 December 2017	470 320	49,38
Granted	198 600	149,59
Forfeited	(48 918)	68,68
Exercised	(153 542)	36,11
Expired	(175)	68,34
Transferred out	(7 227)	92,99
Outstanding at 31 December 2018	459 058	94,42
Exercisable at 31 December 2017	171 160	33,58
Exercisable at 31 December 2018	154 631	66,39

The weighted average contractual life for the share options outstanding as at December 31, 2018 is 3.2 years (2017: 3.2 years).

The weighted average share price for options exercised during 2018 was US\$ 66,39 (2017: US\$ 33,58).

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Note 10. Share based payments (continued)

The share options outstanding are comprised of:

	Number of options	Weighted average remaining contractual life	Number of options	Weighted average remaining contractual life
	31 Dec. 2018	31 Dec. 2018 (years)	31 Dec. 2017	31 Dec. 2017 (years)
Range of exercise prices (US\$)				
1- 12.5	-	-	64 200	0.9
12.5-25	8 619	1.6	46 040	2.2
Above 25	450 439	3.4	360 080	3.8
	<u>459 058</u>		<u>470 320</u>	

In determining the fair value of the employee stock-based awards, the Company uses the Black-Scholes option-pricing model. The expected volatility is based on the historical volatility of public companies that are comparable to the Company over the expected term of the award. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends which will not necessarily be the actual outcome. The risk-free rate is based on US Treasury zero-coupon rates as the exercise price is based on a fixed USD amount. The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of actual exercise patterns.

The following table lists the inputs to the Black-Scholes option-pricing models used for employee share-based payments for the years ended December 31, 2018 and 2017:

	2018	2017
Expected volatility (%)	32.0-34.7	32.0-43.5
Risk free interest rate (%)	2.4-2.9	1.4-2.0
Expected life of share options (years)	2.4-4.4	2.4-4.4
Weighted average share price per Spotify SA (USD)	123.13-189.52	50.70-90.65

Note 11. Cash overdraft

	2018	2017
	£	£
Cash overdraft	-	(87 678 147)

Cash overdraft earns interest at floating rates based on daily bank deposit rates. Spotify Limited participates in the Spotify group cash pool, which is ultimately controlled by Spotify AB.

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Note 12. Trade and other receivables

	Note	2018 £	2017 £
Trade receivables		8 713 347	11 632 894
Prepayments and other debtors		1 764 253	1 768 751
Amounts owed by group undertakings	20	5 949 281	61 691 318
Accrued revenue		3 313 462	4 587 714
VAT recoverable		3 018 949	4 102 140
Other receivables		-	27 368
Total		22 759 292	83 810 185

Trade receivables are non-interest bearing and generally on 30 days terms.

The fair value of receivables above approximate to their carrying values.

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

Note 13. Property, plant and equipment

	2018 £	2017 £
Cost		
At 1 January	28 500 806	27 672 942
Additions	16 435 124	827 664
Disposals	(19 022 691)	-
At 31 December	25 913 039	28 500 606
Accumulated depreciation and impairment		
At January	23 461 165	11 670 083
Depreciation	4 166 339	11 791 082
Disposals	(19 022 691)	-
At 31 December	8 604 813	23 461 165
Carrying amount		
Net book value at 31 December	17 308 226	5 039 441

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Note 14. Investments

	2018	2017
	£	£
Cost		
At 1 January	17 377 128	1 461 106
Additions	-	15 916 022
Disposals	(8 262)	-
At 31 December	<u>17 368 866</u>	<u>17 377 128</u>
Impairment		
At 1 January	(1 084 530)	(1 084 530)
At 31 December	<u>(1 084 530)</u>	<u>(1 084 530)</u>
Net book value at 31 December	<u>16 284 336</u>	<u>16 292 598</u>

There have been no new investments of over 20% of the nominal value of shares for the year ended 31 December 2018.

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

Name of Company	Holding	Proportion of voting rights and shares held	Country of incorporation	Registered Office
Spotify Norway AS	Ordinary shares	100%	Norway	C.J.Hambros Plass 2 C 0164 OSLO Norge
Spotify Spain SL	Ordinary shares	100%	Spain	Eloy Gonzalo, 27 28010 Madrid, Spain
Spotify GmbH	Ordinary shares	100%	Germany	Münzstraße 15, 10178 Berlin
Spotify SAS	Ordinary shares	100%	France	166 rue du Faubourg Saint-Honore 75008 Paris
Spotify Netherlands B.V	Ordinary shares	100%	Holland	Hillegomstraat 12-14 u.3.03, 1058LS Amsterdam
Spotify Finland OY	Ordinary shares	100%	Finland	Sjomansgtan 36 D 523 00150 Helsingfors
Spotify Australia Pty Ltd	Ordinary shares	100%	Australia	Level 1, 120 Chalmers Street, Surry Hills, Sydney NSW 2010

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Note 15. Other non-current assets

	2018	2017
	£	£
Long-term deposits	970 339	1 120 139
Total	970 339	1 120 139

Note 16. Trade and other payables

	2018	2017
	£	£
Trade and other payables	1 363 539	1 691 743
Amounts due to group undertakings (note 20)	25 271 397	35 102
Social security and other taxes	1 853 351	2 867 171
Accrued salaries	2 093 100	2 346 975
Accrued expenses	9 178 446	6 877 196
Other current liabilities	262 335	81 015
Finance lease liability	-	297 506
Deferred revenue	498 016	1 007 413
	40 518 184	15 204 121

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

Note 17. Issued share capital

	2018	2017
	£	£
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1 000	1 000

The total authorised number of ordinary shares is 1,000 shares (2017: 1,000 shares).

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

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Note 18. Financial risk management objectives and policies

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

	2018	2017
	£	£
Financial assets		
Other non-current assets	970 339	1 120 139
Accrued revenue	3 313 462	4 587 714
Trade Receivables	8 713 347	11 632 894
Amounts owed by group undertakings (note 20)	5 949 281	61 691 318
Total	18 946 429	79 032 065
Financial liabilities		
Trade payables	1 363 539	1 691 743
Amounts owed to group undertakings (note 20)	25 271 397	35 102
Social security and other taxes	1 853 351	2 867 171
Accrued salaries	2 093 100	2 346 975
Accrued expenses	9 178 446	6 877 196
Finance lease liability	-	297 506
Deferred liability	7 322 978	2 895 282
	47 082 811	17 010 975

Capital management

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

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

Credit risk

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

Credit risk is 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.

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Note 18. Financial risk management objectives and policies (continued)

Financial assets that were past due or impaired at 31 December 2018 and 2017 respectively are detailed in the tables below

Maturity analysis of trade receivables and accrued revenue as at 31 December 2018 and 31 December 2017:

	Net	Impairment	Net	Impairment
	2018	2018	2017	2017
	£	£	£	£
Not yet due	7 298 645	-	6 178 782	-
Overdue 0 – 90 days	2 502 402	-	5 044 577	-
Overdue 91 – 180 days	669 670	-	2 468 946	-
Overdue 181 – 360 days	827 247	-	1 042 456	-
Overdue for more than 1 year	728 845	-	1 485 847	-
Total	12 026 809	-	16 220 609	-

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

Amounts owed by group undertakings are due on demand and no provision is held against these items.

Changes in value adjustments of trade receivables:

	2018	2017
	£	£
Carrying amount at 1 January	-	1 447 035
Confirmed bad debt	-	-
Charge/(credit) for the year	-	(1 447 035)
Carrying amount at 31 December	-	-

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

Maximum credit risk as at 31 December 2018 and 31 December 2017:

	2018	2017
	£	£
Other non-current assets	970 339	1 120 139
Accrued revenue	3 313 462	4 587 714
Trade Receivables	8 713 347	11 632 894
Amounts owed by group undertakings (note 20)	5 949 281	61 691 318
Total	18 946 429	79 032 065

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Note 18. Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the Company's risk of not being able to meet the short term payment obligations due to insufficient funds. The Company has internal control processes and contingency plans for managing liquidity risk. The liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from operations

At 31 December 2018 the Company held a cash and cash equivalents overdraft amounting to £nil (2017: £87 678 147).

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

	Carrying amount £	Contractual cash flow £	Due in 0-12 months £
As of 31 December 2018			
Trade and other payables	39 759 833	39 759 833	39 759 833
As of 31 December 2017			
Trade and other payables	13 818 187	13 818 187	13 818 187

	Carrying amount £	Contractual cash flow £	Due in 0-12 months £
As of 31 December 2018			
Short term payables to related parties	25 271 397	25 271 397	25 271 397

	Carrying amount £	Contractual cash flow £	Due in 0-12 months £
As of 31 December 2017			
Short term payables to related parties	35 102	35 102	35 102

The carrying amounts of the Company's financial assets and liabilities approximate fair value due to their relatively short maturities

Foreign currency risk

The Company operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to GBP and EUR. The Company is not exposed to foreign currency risk as this is taken by Spotify AB as part of the transfer pricing agreement.

Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs or reduced income from the Company's interest bearing financial assets and liabilities. The Company has fixed interest income and expense on financial liabilities. As this is fixed interest there is no risk associated with changes in interest rates. The interest rate risk arising on interest income is immaterial and the Company does not currently consider it necessary to actively manage interest rate risk.

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Note 19. Obligation under operating lease

Operating under leases where the Company is the 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:

	2018	2017
	£	£
No later than 1 year	3 815 856	2 000 394
After one year but not more than 5 years	26 119 100	27 987 967
Later than 5 years	23 398 360	34 664 288
	<u>53 333 316</u>	<u>64 652 659</u>

Note 20. Related parties transactions

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

(a) Sales

	2018	2017
	£	£
Parent entity:		
Spotify AB (services and royalty)	53 148 739	122 362 277
Total	<u>53 148 739</u>	<u>122 362 277</u>

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

Short term receivables from related parties	2018	2017
	£	£
Receivables from Parent:		
Spotify AB	5 949 281	61 691 318
Total	<u>5 949 281</u>	<u>61 691 318</u>
 Short term payables to related parties	 2018	 2017
	£	£
Payables to Parent:		
Spotify AB	25 271 397	35 102
Total	<u>25 271 397</u>	<u>35 102</u>

There are no provisions for related parties' receivables in 2018 and 2017.

SPOTIFY Ltd.
Registered number 06436047

Note 21. Ultimate parent undertaking and controlling party

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