UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2022

Commission File Number: 001-38438

Spotify Technology S.A.

(Translation of registrant's name into English)

42-44, avenue de la Gare
L-1610 Luxembourg
Grand Duchy of Luxembourg
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ☐ No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ☐ No ☒



Spotify Technology S.A.

Interim condensed consolidated financial statements
For the three months ended March 31, 2022

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Interim condensed consolidated statement of operations
(Unaudited)
(in € millions, except share and per share data)

	Note	Three months ended March 31, 2022	2021
Revenue	**5**	2,661	2,147
Cost of revenue		1,990	1,599
Gross profit		**671**	**548**
Research and development		250	196
Sales and marketing		296	236
General and administrative		131	102
		677	**534**
Operating (loss)/income		**(6)**	**14**
Finance income	**6**	175	104
Finance costs	**6**	(14)	(31)
Finance income/(costs) - net		**161**	**73**
Income before tax		**155**	**87**
Income tax expense	**7**	24	64
Net income attributable to owners of the parent		**131**	**23**
Earnings/(loss) per share attributable to owners of the parent			
Basic	**8**	0.68	0.12
Diluted	**8**	0.21	(0.25)
Weighted-average ordinary shares outstanding			
Basic	**8**	192,476,022	190,565,397
Diluted	**8**	197,077,256	191,815,695

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive (loss)/income
(Unaudited)
(in € millions)

	Note	Three months ended March 31, 2022	2021
Net income attributable to owners of the parent		**131**	**23**
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to condensed consolidated statement of operations (net of tax):			
Change in net unrealized gain or loss on short term investments	**15, 21**	(13)	(2)
Change in net unrealized gain or loss on cash flow hedging instruments	**15, 21**	(2)	(6)
Change in foreign currency translation adjustment		33	41
Items not to be subsequently reclassified to condensed consolidated statement of operations (net of tax):			
(Losses)/gains in the fair value of long term investments	**15, 21**	(238)	195
Other comprehensive (loss)/income for the period (net of tax)		**(220)**	**228**
Total comprehensive (loss)/income for the period attributable to owners of the parent		**(89)**	**251**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Interim condensed consolidated statement of financial position
(in € millions)

	Note	March 31, 2022 (Unaudited)	December 31, 2021
Assets			
Non-current assets			
Lease right-of-use assets	**9**	443	437
Property and equipment	**10**	369	372
Goodwill	**11**	978	894
Intangible assets	**11**	109	89
Long term investments	**21**	682	916
Restricted cash and other non-current assets	**12**	82	77
Deferred tax assets	**7**	8	13
		2,671	**2,798**
Current assets			
Trade and other receivables	**13**	556	621
Income tax receivable		5	5
Short term investments	**21**	816	756
Cash and cash equivalents		2,721	2,744
Other current assets	**14**	270	246
		4,368	**4,372**
Total assets		**7,039**	**7,170**
Equity and liabilities			
Equity			
Share capital		—	—
Other paid in capital		4,789	4,746
Treasury shares	**15**	(262)	(260)
Other reserves	**15**	709	853
Accumulated deficit		(3,089)	(3,220)
Equity attributable to owners of the parent		**2,147**	**2,119**
Non-current liabilities			
Exchangeable Notes	**17, 21**	1,146	1,202
Lease liabilities	**9**	587	579
Accrued expenses and other liabilities	**19**	30	37
Provisions	**20**	6	7
		1,769	**1,825**
Current liabilities			
Trade and other payables	**18**	695	793
Income tax payable		13	23
Deferred revenue		469	458
Accrued expenses and other liabilities	**19**	1,882	1,841
Provisions	**20**	22	22
Derivative liabilities	**21**	42	89
		3,123	**3,226**
Total liabilities		**4,892**	**5,051**
Total equity and liabilities		**7,039**	**7,170**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity
(Unaudited)
(in € millions)

	Note	Share capital	Other paid in capital	Treasury Shares	Other reserves	Accumulated deficit	Equity attributable to owners of the parent
Balance at January 1, 2022		—	**4,746**	**(260)**	**853**	**(3,220)**	**2,119**
Income for the period		—	—	—	—	131	131
Other comprehensive loss		—	—	—	(220)	—	(220)
Repurchases of ordinary shares		—	—	(2)	—	—	(2)
Issuance of shares upon exercise of stock options, restricted stock units, and contingently issuable shares	**15**	—	43	—		—	43
Restricted stock units withheld for employee taxes		—	—	—	(11)	—	(11)
Share-based compensation	**16**	—	—	—	69	—	69
Income tax impact associated with share-based compensation	**7**	—	—	—	18	—	18
Balance at March 31, 2022		**—**	**4,789**	**(262)**	**709**	**(3,089)**	**2,147**

	Note	Share capital	Other paid in capital	Treasury Shares	Other reserves	Accumulated deficit	Equity attributable to owners of the parent
Balance at January 1, 2021		—	**4,583**	**(175)**	**1,687**	**(3,290)**	**2,805**
Income for the period		—	—	—	—	23	23
Other comprehensive income		—	—	—	228	—	228
Issuance of shares upon exercise of stock options, restricted stock units, and contingently issuable shares	**15**	—	47	4	—	—	51
Restricted stock units withheld for employee taxes		—	—	—	(16)	—	(16)
Share-based compensation	**16**	—	—	—	49	—	49
Income tax impact associated with share-based compensation	**7**	—	—	—	104	—	104
Balance at March 31, 2021		**—**	**4,630**	**(171)**	**2,052**	**(3,267)**	**3,244**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows
(Unaudited)
(in € millions)

	Note	Three months ended March 31, 2022	2021
Operating activities			
Net income		131	23
Adjustments to reconcile net income to net cash flows			
Depreciation of property and equipment and lease right-of-use assets	**9, 10**	27	22
Amortization of intangible assets	**11**	10	8
Share-based compensation expense	**16**	68	48
Finance income	**6**	(175)	(104)
Finance costs	**6**	14	31
Income tax expense	**7**	24	64
Other		4	2
Changes in working capital:			
Decrease in trade receivables and other assets		59	15
Decrease in trade and other liabilities		(103)	(67)
Increase in deferred revenue		6	37
Decrease in provisions	**20**	(3)	(1)
Interest paid on lease liabilities	**9**	(13)	(11)
Interest received		1	—
Income tax paid		(13)	(2)
Net cash flows from operating activities		**37**	**65**
Investing activities			
Business combinations, net of cash acquired	**4**	(85)	(59)
Purchases of property and equipment	**10**	(10)	(24)
Purchases of short term investments	**21**	(133)	(115)
Sales and maturities of short term investments	**21**	78	90
Change in restricted cash	**12**	(5)	—
Other		(1)	(6)
Net cash flows used in investing activities		**(156)**	**(114)**
Financing activities			
Proceeds from exercise of stock options	**16**	43	51
Repurchases of ordinary shares	**15**	(2)	—
Payments of lease liabilities	**9**	(10)	(8)
Lease incentives received	**9**	2	—
Proceeds from issuance of Exchangeable Notes, net of costs	**17**	—	1,223
Payments for employee taxes withheld from restricted stock unit releases	**16**	(11)	(16)
Net cash flows from financing activities		**22**	**1,250**
Net (decrease)/increase in cash and cash equivalents		**(97)**	**1,201**
Cash and cash equivalents at beginning of the period		2,744	1,151
Net foreign exchange gains on cash and cash equivalents		74	90
Cash and cash equivalents at March 31		**2,721**	**2,442**
Supplemental disclosure of cash flow information			
Non-cash investing and financing activities			
Recognition of lease right-of-use asset in exchange for lease liabilities	**9**	12	6
Purchases of property and equipment in trade and other liabilities	**10**	6	16

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements
(Unaudited)

1. Corporate information

Spotify Technology S.A. (the "Company" or "parent") is a public limited company incorporated and domiciled in Luxembourg. The Company's registered office is 42-44 avenue de la Gare, L-1610, Luxembourg, Grand Duchy of Luxembourg.

The principal activity of the Company and its subsidiaries (collectively, the "Group," "we," "us," or "our") is audio streaming. The Group's premium service ("Premium Service") provides users with unlimited online and offline high-quality streaming access to its catalog of music and podcasts. The Premium Service offers a music listening experience without commercial breaks. The Group's ad-supported service ("Ad-Supported Service" and together with the Premium Service, the "Service") has no subscription fees and provides users with limited on-demand online access to the catalog of music and unlimited online access to the catalog of podcasts. The Group depends on securing content licenses from a number of major and minor content owners and other rights holders in order to provide its service.

2. Basis of preparation and summary of significant accounting policies

The interim condensed consolidated financial statements of Spotify Technology S.A. for the three months ended March 31, 2022 and 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim financial information is unaudited. The interim financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary to fairly present the information set forth herein. The interim condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2021, as they do not include all the information and disclosures required in the annual consolidated financial statements. Interim results are not necessarily indicative of the results for a full year. The interim condensed consolidated financial statements are presented in millions of Euros.

New and amended standards and interpretations adopted by the Group

There are no new IFRS or IFRS Interpretation Committee ("IFRIC") interpretations effective for the three months ended March 31, 2022 that have a material impact to the interim condensed consolidated financial statements.

New standards and interpretations issued not yet effective

In January 2020, the International Accounting Standards Board ("IASB") issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* to specify the requirements for classifying liabilities as current or non-current, effective for annual reporting periods beginning on or after January 1, 2023. The amendment would require the Group to reclassify the Exchangeable Notes as a current liability if the exchange conditions are met, even if no noteholder actually requires us to exchange their notes.

There are no other IFRS or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Group's interim condensed consolidated financial statements.

3. Critical accounting estimates and judgments

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2021.

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

4. Business combinations

During February 2022, the Group acquired 100% of In Defense of Growth Inc. ("Podsights") and Chartable Holding, Inc. ("Chartable") to provide improved podcast ad measurement and analytics services. These acquisitions allow the Group to expand and scale its podcast monetization and product offering for advertisers and publishers.

The combined fair value of the purchase consideration for the two acquisitions was €83 million in cash, paid at closing. The acquisitions were accounted for under the acquisition method. Of the total purchase consideration, €59 million has been recorded to goodwill, €26 million to acquired intangible assets, €4 million to cash and cash equivalents, €1 million to other tangible net assets, and €7 million to deferred tax liabilities. The Group incurred €2 million in acquisition related costs which were recognized as general and administrative expenses.

The goodwill represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including expected future synergies and technical expertise of the acquired workforce. None of the goodwill recognized is expected to be deductible for tax purposes. The goodwill was included in the Ad-Supported segment.

The intangible assets acquired relate to existing technology and customer relationships. The useful lives of existing technology ranges from three to five years and the useful life of customer relationships is one year. The Group valued the existing technology using the multi-period excess earnings and replacement cost methods, under the income approach and cost approach, respectively. The Group valued the customer relationships using the replacement cost method, under the cost approach.

In addition to the purchase consideration, there are cash payments of €21 million that are contingent on the continued employment of certain employees. In addition, €10 million of equity instruments were offered to and accepted by certain employees, which have vesting conditions contingent on continued employment and are accounted for as equity-settled share-based compensation transactions. These cash payments and share-based compensation transactions are recognized as post-combination expense over employment service periods of up to four years, if not forfeited by the employees.

For the three months ended March 31, 2022, revenues and operating results of the acquired businesses were not significant to the Group's condensed consolidated statement of operations.

The amount for business combinations, net of cash acquired, within the condensed consolidated statement of cash flows for the three months ended March 31, 2022 includes €6 million of investing cash outflows for deferred consideration of previous business combinations.

5. Segment information

The Group has two reportable segments: Premium and Ad-Supported. Revenue for the Premium segment is generated primarily through subscription fees. Revenue for the Ad-Supported segment is primarily generated through the sale of advertising across the Group's music and podcast content. Royalty costs are primarily recorded in each segment based on specific rates for each segment agreed to with rights holders. All podcast content costs are recorded in the Ad-Supported segment. The remaining costs that are not specifically associated to either of the segments are allocated based on user activity or the revenue recognized in each segment. The operations of businesses acquired during March 31, 2021 and 2022 are included in the Ad-Supported segment. No operating segments have been aggregated to form the reportable segments.

Key financial performance measures of the segments including revenue, cost of revenue, and gross profit are as follows:

	Three months ended March 31,	
	2022	2021
	(in € millions)	
Premium		
Revenue	2,379	1,931
Cost of revenue	1,704	1,393
Gross profit	**675**	**538**
Ad-Supported		
Revenue	282	216
Cost of revenue	286	206
Gross profit	**(4)**	**10**
Consolidated		
Revenue	2,661	2,147
Cost of revenue	1,990	1,599
Gross profit	**671**	**548**

Reconciliation of segment gross profit

Operating expenses, finance income, and finance costs are not allocated to individual segments as these are managed on an overall Group basis. The reconciliation between reportable segment gross profit to the Group's income before tax is as follows:

	Three months ended March 31,	
	2022	2021
	(in € millions)	
Segment gross profit	**671**	**548**
Research and development	(250)	(196)
Sales and marketing	(296)	(236)
General and administrative	(131)	(102)
Finance income	175	104
Finance costs	(14)	(31)
Income before tax	**155**	**87**

Revenue by country

	Three months ended March 31,	
	2022	2021
	(in € millions)	
United States	1,020	792
United Kingdom	273	225
Luxembourg	2	1
Other countries	1,366	1,129
	2,661	**2,147**

Premium revenue is attributed to a country based on where the membership originates. Ad-Supported revenue is attributed to a country based on where the advertising campaign is delivered. There are no countries that individually make up greater than 10% of total revenue included in "Other countries."

6. Finance income and costs

	Three months ended March 31,	
	2022	2021
	(in € millions)	
Finance income		
Fair value movements on derivative liabilities (Note 21)	50	22
Fair value movements on Exchangeable Notes (Note 21)	90	49
Interest income	3	3
Foreign exchange gains	22	29
Other finance income	10	1
Total	**175**	**104**
Finance costs		
Interest expense on lease liabilities	(10)	(10)
Transaction costs in relation to issuance of Exchangeable Notes	—	(18)
Other finance costs	(4)	(3)
Total	**(14)**	**(31)**

7. Income tax

The effective tax rates for the three months ended March 31, 2022 and 2021 were 15.3% and 73.8%, respectively. The Group operates in a global environment with significant operations in various jurisdictions outside Luxembourg. Accordingly, the consolidated income tax rate is a composite rate reflecting the Group's earnings and the applicable tax rates in the various jurisdictions where the Group operates.

For the three months ended March 31, 2022, the income tax expense of €24 million was due primarily to the impact of share-based compensation deductions recognized in equity. The expense for the three months ended March 31, 2021 was due primarily to reassessment of uncertain tax positions and current period share-based compensation deductions recognized in equity.

Transactions recorded through other comprehensive (loss)/income have been shown net of their tax impact, as applicable.

We are subject to ongoing tax audits in several jurisdictions, and most of these audits involve transfer pricing issues. Tax authorities in certain jurisdictions have challenged our tax positions. We regularly assess the likely outcomes of these audits, taking into account any new information available, in order to determine the appropriateness of our tax reserves. If we conclude that it is not probable that our tax position will be accepted, the effect of that uncertainty is reflected at either the most likely amount or the expected value, taking into account a range of possible outcomes.

Tax provisions in the condensed consolidated statement of financial position were €6 million as of March 31, 2022 and December 31, 2021, of which €5 million is reasonably expected to be resolved within twelve months. The estimate of uncertain tax positions have a gross impact of €35 million (before utilization of loss carry forwards) at both March 31, 2022 and December 31, 2021. Interest and penalties included in income tax expense were not material in any of the periods presented. Due to the uncertainty associated with our tax positions, any future agreement with the tax authorities could have a significant impact on our results of operations, financial condition and cash flows.

Net deferred tax assets of €8 million and €13 million have been recorded in the condensed consolidated statement of financial position as of March 31, 2022 and December 31, 2021, respectively. In evaluating the probability of realizing the deferred tax assets, the Group considered all available positive and negative evidence of future tax profit, primarily past operating results. As of March 31, 2022 and December 31, 2021, deferred tax assets of €584 million and €630 million have not been recognized.

8. Earnings/(loss) per share

Basic earnings per share is computed using the weighted-average number of outstanding ordinary shares during the period. Diluted earnings/(loss) per share is computed using the weighted-average number of outstanding ordinary shares and potential outstanding ordinary shares during the period. Potential ordinary shares, which are based on the weighted-average ordinary shares underlying outstanding stock options, restricted stock units, other contingently issuable shares, warrants, and Exchangeable Notes and computed using the treasury stock method or the if-converted method, as applicable, are included when calculating diluted earnings/(loss) per share when their effect is dilutive. The computation of earnings/(loss) per share for the respective periods is as follows:

	Three months ended March 31,	
	2022	2021
	(in € millions, except share and per share data)	
Basic earnings per share		
Net income attributable to owners of the parent	131	23
Shares used in computation:		
Weighted-average ordinary shares outstanding	192,476,022	190,565,397
Basic earnings per share attributable to owners of the parent	**0.68**	**0.12**
Diluted earnings/(loss) per share		
Net income attributable to owners of the parent	131	23
Fair value gains on dilutive warrants	—	(22)
Fair value gains on dilutive Exchangeable Notes	(90)	(49)
Net income/(loss) used in the computation of diluted earnings/(loss) per share	**41**	**(48)**
Shares used in computation:		
Weighted-average ordinary shares outstanding	192,476,022	190,565,397
Warrants	—	312,148
Exchangeable Notes	2,911,500	938,150
Stock options	1,055,820	—
Restricted stock units	562,670	—
Other contingently issuable shares	71,244	—
Diluted weighted-average ordinary shares	197,077,256	191,815,695
Diluted earnings/(loss) per share attributable to owners of the parent	**0.21**	**(0.25)**

Potential dilutive securities that were not included in the diluted earnings/(loss) per share calculations because they would be anti-dilutive were as follows:

	Three months ended March 31,	
	2022	2021
Stock options	7,617,452	9,355,458
Restricted stock units	196,095	1,514,918
Other contingently issuable shares	—	131,708
Warrants	1,600,000	—

9. Leases

The Group leases certain properties under non-cancellable lease agreements that relate to office space. The expected lease terms are up to twelve years. The Group currently does not act in the capacity of a lessor.

Below is the roll-forward of lease right-of-use assets:

Right-of-use assets	
	(in € millions)
Cost	
At January 1, 2022	**632**
Increases	12
Decreases	—
Exchange differences	11
At March 31, 2022	**655**
Accumulated depreciation	
At January 1, 2022	**(195)**
Depreciation charge	(14)
Decreases	—
Exchange differences	(3)
At March 31, 2022	**(212)**
Cost, net accumulated depreciation	
At January 1, 2022	**437**
At March 31, 2022	**443**

Below is the roll-forward of lease liabilities:

Lease liabilities	**2022**	**2021**
	(in € millions)	
At January 1	**623**	**608**
Increases	12	6
Payments [(1)]	(23)	(19)
Interest expense	10	10
Lease incentives received [(1)]	2	—
Increases in lease incentives receivable	1	—
Exchange differences	12	18
At March 31	**637**	**623**

(1) Included within the condensed consolidated statement of cash flows

Below is the maturity analysis of lease liabilities:

Lease liabilities	**March 31, 2022**
Maturity Analysis	**(in € millions)**
Less than one year	94
One to five years	372
More than five years	425
Total lease commitments	**891**
Impact of discounting remaining lease payments	(250)
Lease incentives receivable	(4)
Total lease liabilities	**637**
Lease liabilities included in the condensed consolidated statement of financial position	
Current	50
Non-current	587
Total	**637**

Excluded from the lease commitments above are short term leases. Expenses relating to short term leases were approximately €2 million for each of the three months ended March 31, 2022 and 2021. Additionally, the Group has entered into certain lease agreements with approximately €4 million of commitments, which had not commenced as of March 31, 2022, and as such, have not been recognized in the condensed consolidated statement of financial position.

The weighted-average incremental borrowing rate applied to lease liabilities recognized in the condensed consolidated statement of financial position as of March 31, 2022 was 6.4%.

10. Property and equipment

	Property and equipment	Leasehold improvements	Total
		(in € millions)	
Cost			
At January 1, 2022	**83**	**422**	**505**
Additions	1	2	3
Exchange differences	1	9	10
At March 31, 2022	**85**	**433**	**518**
Accumulated depreciation			
At January 1, 2022	**(46)**	**(87)**	**(133)**
Depreciation charge	(3)	(10)	(13)
Exchange differences	(2)	(1)	(3)
At March 31, 2022	**(51)**	**(98)**	**(149)**
Cost, net accumulated depreciation			
At January 1, 2022	**37**	**335**	**372**
At March 31, 2022	**34**	**335**	**369**

The Group had €4 million of leasehold improvements that were not placed into service as of both March 31, 2022 and December 31, 2021.

11. Goodwill and intangible assets

	Internal development costs and patents	Acquired intangible assets	Total	Goodwill	Total
			(in € millions)		
Cost					
At January 1, 2022	**64**	**105**	**169**	**894**	**1,063**
Additions	2	—	2	—	2
Acquisition, business combination (Note 4)	—	26	26	59	85
Exchange differences	—	3	3	25	28
At March 31, 2022	**66**	**134**	**200**	**978**	**1,178**
Accumulated amortization					
At January 1, 2022	**(33)**	**(47)**	**(80)**	**—**	**(80)**
Amortization charge	(4)	(6)	(10)	—	(10)
Exchange differences	—	(1)	(1)	—	(1)
At March 31, 2022	**(37)**	**(54)**	**(91)**	**—**	**(91)**
Cost, net accumulated amortization					
At January 1, 2022	**31**	**58**	**89**	**894**	**983**
At March 31, 2022	**29**	**80**	**109**	**978**	**1,087**

Amortization charges related to intangible assets of €8 million and €6 million are included in research and development in the condensed consolidated statement of operations during the three months ended March 31, 2022 and 2021, respectively. There were no impairment charges for goodwill or intangible assets for the three months ended March 31, 2022 and 2021, respectively.

12. Restricted cash and other non-current assets

	March 31, 2022	December 31, 2021
	(in € millions)	
Restricted cash		
Lease deposits and guarantees	52	51
Other	5	1
Other non-current assets	25	25
Total	**82**	**77**

13. Trade and other receivables

	March 31, 2022	December 31, 2021
	(in € millions)	
Trade receivables	394	443
Less: allowance for expected credit losses	(5)	(6)
Trade receivables - net	389	437
Other receivables	167	184
Total	**556**	**621**

14. Other current assets

	March 31, 2022	December 31, 2021
	(in € millions)	
Content assets	167	161
Prepaid expenses and other	89	74
Derivative assets	14	11
Total	**270**	**246**

Content asset amortization of €41 million and €23 million is included in cost of revenue in the condensed consolidated statement of operations for the three months ended March 31, 2022 and 2021, respectively.

15. Equity and other reserves

As of March 31, 2022 and December 31, 2021, the Company had 196,858,811 and 195,614,910 ordinary shares issued and fully paid, respectively, with 3,977,323 and 3,463,099 ordinary shares held as treasury shares, respectively.

On August 20, 2021, the Company announced that the board of directors had approved a program to repurchase up to $1.0 billion of the Company's ordinary shares. Repurchases of up to 10,000,000 of the Company's ordinary shares were authorized at the Company's general meeting of shareholders on April 21, 2021. The repurchase program will expire on April 21, 2026. Since the commencement of this repurchase program and through March 31, 2022, 469,274 shares were repurchased for €94 million under this program.

For the three months ended March 31, 2022, the Company repurchased 1,209,040 of its own ordinary shares and reissued 694,816 treasury shares upon the exercise of stock options, restricted stock units, and contingently issuable shares. For the three months ended March 31, 2021, the Company did not repurchase any of its own ordinary shares and reissued 765,596 treasury shares upon the exercise of stock options, restricted stock units, and contingently issuable shares.

As of March 31, 2022 and December 31, 2021, the Group's founders held 349,876,040 and 350,514,260 beneficiary certificates, respectively.

Other reserves

	2022	2021
	(in € millions)	
Currency translation		
At January 1	**17**	**(54)**
Currency translation	33	41
At March 31	**50**	**(13)**
Short term investments		
At January 1	**(3)**	**5**
Losses on fair value that may be subsequently reclassified to condensed consolidated statement of operations	(13)	(2)
Gains reclassified to condensed consolidated statement of operations	—	(1)
Deferred tax	—	1
At March 31	**(16)**	**3**
Long term investments		
At January 1	**(26)**	**1,059**
(Losses)/gains on fair value not to be subsequently reclassified to condensed consolidated statement of operations	(243)	245
Deferred tax	5	(50)
At March 31	**(264)**	**1,254**
Cash flow hedges		
At January 1	**(4)**	**(3)**
Losses on fair value that may be subsequently reclassified to condensed consolidated statement of operations	(7)	(8)
Losses reclassified to revenue	12	12
Gains reclassified to cost of revenue	(7)	(11)
Deferred tax	—	1
At March 31	**(6)**	**(9)**
Share-based compensation		
At January 1	**869**	**680**
Share-based compensation	69	49
Income tax impact associated with share-based compensation	18	104
Restricted stock units withheld for employee taxes	(11)	(16)
At March 31	**945**	**817**
Other reserves at March 31	**709**	**2,052**

16. Share-based compensation

The expense recognized in the condensed consolidated statement of operations for share-based compensation is as follows:

	Three months ended March 31,	
	2022	2021
	(in € millions)	
Cost of revenue	2	2
Research and development	37	24
Sales and marketing	13	9
General and administrative	16	13
Total	**68**	**48**

Activity in the Group's RSUs and other contingently issuable shares outstanding and related information is as follows:

	RSUs		Other	
	Number of RSUs	Weighted average grant date fair value	Number of Awards	Weighted average grant date fair value
		US$		US$
Outstanding at January 1, 2022	**1,425,196**	**211.25**	**108,720**	**145.19**
Granted	1,006,700	158.71	30,824	162.21
Forfeited	(47,485)	210.28	—	—
Released	(146,235)	194.60	(47,470)	145.20
Outstanding at March 31, 2022	**2,238,176**	**188.73**	**92,074**	**150.89**

In connection with the acquisition of Podsights during the three months ended March 31, 2022, the Company granted 30,824 equity instruments to certain employees of Podsights. The instruments vest annually over a four-year period from the acquisition date and the vesting is contingent on continued employment. The instruments are accounted for as equity-settled share-based payment transactions and are measured based on the fair market value of the underlying ordinary shares on the date of grant. The grant date fair value for each equity instrument granted to employees of Podsights was US$162.21.

In the table above, the number of RSUs and other contingently issuable shares released include ordinary shares that the Group has withheld for settlement of employees' tax obligations due upon the vesting of RSUs and other contingently issuable shares.

Activity in the Group's stock options outstanding and related information is as follows:

	Options	
	Number of options	Weighted average exercise price
		US$
Outstanding at January 1, 2022	**8,695,348**	**190.19**
Granted	4,190,144	173.73
Forfeited	(137,871)	262.11
Exercised	(614,288)	78.04
Expired	(23,277)	210.61
Outstanding at March 31, 2022	**12,110,056**	**189.33**
Exercisable at January 1, 2022	**4,453,983**	**152.64**
Exercisable at March 31, 2022	**4,374,615**	**169.35**

The weighted-average contractual life for the stock options outstanding at March 31, 2022 was 3.4 years. The weighted average share price at exercise for options exercised during the three months ended March 31, 2022 was US$158.79. The weighted average fair value of options granted during the three months ended March 31, 2022 was US$49.07 per option.

The following table lists the inputs to the Black-Scholes option-pricing models used for share-based compensation for the three months ended March 31, 2022 and 2021:

	Three months ended March 31,	
	2022	2021
Expected volatility (%)	35.9 - 47.5	34.1 - 42.6
Risk-free interest rate (%)	0.9 - 1.6	0.2 - 0.7
Expected life of stock options (years)	2.6 - 4.8	2.6 - 4.8
Weighted average share price (US$)	154.55	321.40

17. Exchangeable Notes

On March 2, 2021, the Company's wholly owned subsidiary, Spotify USA Inc. (the "Issuer"), issued US$1,500 million aggregate principal amount of 0% Exchangeable Senior Notes due 2026 (the "Exchangeable Notes"), which included the initial purchasers' exercise in full of their option to purchase an additional US$200 million principal amount of the Exchangeable Notes. The Exchangeable Notes will mature on March 15, 2026, unless earlier repurchased, redeemed or exchanged. The Exchangeable Notes are fully and unconditionally guaranteed, on a senior, unsecured basis by the Company.

The net proceeds from the issuance of the Exchangeable Notes were €1,223 million after deducting transaction costs of €18 million. The transaction costs were immediately expensed and included in finance costs in the condensed consolidated statement of operations for the three months ended March 31, 2021.

The Exchangeable Notes are the Issuer's senior unsecured obligations and are equal in right of payment with the Issuer's future senior, unsecured indebtedness, senior in right of payment to the Issuer's future indebtedness that is expressly subordinated to the Exchangeable Notes and effectively subordinated to the Issuer's future secured indebtedness, to the extent of the value of the collateral securing that indebtedness. The Exchangeable Notes will be structurally subordinated to all future indebtedness and other liabilities, including trade payables, and (to the extent the Issuer is not a holder thereof) preferred equity, if any, of the Issuer's subsidiaries.

The noteholders may exchange their Exchangeable Notes at their option into consideration that consists, at the Issuer's election, of cash, ordinary shares of the Company, or a combination of cash and ordinary shares, but only under certain circumstances as set forth in the indenture governing the Exchangeable Notes (the "Indenture"). The circumstances required to allow the noteholders to exchange their Exchangeable Notes were not met during the three months ended March 31, 2022.

The Exchangeable Notes will not be redeemable prior to March 20, 2024, except in the event of certain tax law changes as set forth in the Indenture. The Exchangeable Notes will be redeemable, in whole or in part, at the Issuer's option at any time, and from time to time, on or after March 20, 2024 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Exchangeable Notes to be redeemed, plus accrued and unpaid special and additional interest, if any, but only if the last reported sale price per ordinary share exceeds 130% of the exchange price on:

(1) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Issuer sends the related redemption notice; and

(2) the trading day immediately before the date the Issuer sends such notice.

In addition, the Issuer will have the right to redeem all, but not less than all, of the Exchangeable Notes if certain changes in tax law as set forth in the Indenture occur. In addition, calling any Exchangeable Note for redemption will constitute a make-whole fundamental change with respect to that Exchangeable Note, in which case the exchange rate applicable to the exchange of that Exchangeable Note will be increased in certain circumstances if it is exchanged after it is called for redemption.

Upon the occurrence of a "fundamental change" as set forth in the Indenture, noteholders may require the Issuer to repurchase their Exchangeable Notes at a cash repurchase price equal to the principal amount of the Exchangeable Notes to be repurchased, plus accrued and unpaid special and additional interest, if any, to, but excluding, the fundamental change repurchase date as set forth in the Indenture.

The Group accounted for the Exchangeable Notes at fair value through profit and loss using the fair value option in accordance with IFRS 9, Financial Instruments. The fair value of the Exchangeable Notes as of March 31, 2022 was €1,146 million. See Note 21 for information regarding the key inputs and assumptions used to estimate the fair value of the Exchangeable Notes.

18. Trade and other payables

	March 31, 2022	December 31, 2021
	(in € millions)	
Trade payables	449	534
Value added tax and sales taxes payable	229	229
Other current liabilities	17	30
Total	**695**	**793**

19. Accrued expenses and other liabilities

	March 31, 2022	December 31, 2021
	(in € millions)	
Non-current		
Other accrued liabilities	30	37
Total	**30**	**37**
Current		
Accrued fees to rights holders	1,487	1,378
Accrued salaries, vacation, and related taxes	87	92
Accrued social costs for options and RSUs	19	84
Accrued operating liabilities	186	188
Other accrued expenses	103	99
Total	**1,882**	**1,841**

20. Provisions

	Legal contingencies	Indirect tax	Onerous Contracts	Other	Total
			(in € millions)		
Carrying amount at January 1, 2022	**4**	**8**	**10**	**7**	**29**
Charged/(credited) to the condensed statement of operations:					
Additional provisions	—	1	1	—	2
Reversal of unutilized amounts	—	(1)	(1)	—	(2)
Exchange differences	1	—	—	—	1
Utilized	—	—	(2)	—	(2)
Carrying amount at March 31, 2022	**5**	**8**	**8**	**7**	**28**
As at January 1, 2022					
Current portion	**4**	**8**	**6**	**4**	**22**
Non-current portion	—	—	**4**	**3**	**7**
As at March 31, 2022					
Current portion	**5**	**8**	**5**	**4**	**22**
Non-current portion	—	—	**3**	**3**	**6**

Various legal actions, proceedings, and claims are pending or may be instituted or asserted against the Group. The results of such legal proceedings are difficult to predict and the extent of the Group's financial exposure is difficult to estimate. The Group records a provision for contingent losses when it is both probable that a liability has been incurred, and the amount of the loss can be reasonably estimated.

As of April 2019, the Group's settlement of the *Ferrick et al. v. Spotify USA Inc.*, No. 1:16-cv-8412-AJN (S.D.N.Y.), putative class action lawsuit, which alleged that the Group unlawfully reproduced and distributed musical compositions without obtaining licenses, was final and effective. Even with the effectiveness of the settlement, we may still be subject to claims of copyright infringement by rights holders who have purported to opt out of the settlement or who may not otherwise be covered by its terms. The Music Modernization Act of 2018 contains a limitation of liability with respect to such lawsuits filed on or after January 1, 2018. Rights holders may, nevertheless, file lawsuits, and may argue that they should not be bound by this limitation of liability. For example, in August 2019, the *Eight Mile Style, LLC et al v. Spotify USA Inc.*, No. 3:19-cv-00736-AAT, lawsuit was filed against us in the U.S. District Court for the Middle District of Tennessee, alleging both that the Group does not qualify for the limitation of liability in the Music Modernization Act and that the limitation of liability is unconstitutional and, thus, not valid law. The Group intends to vigorously defend this lawsuit, including plaintiffs' challenges to the limitation of liability in the Music Modernization Act.

21. Financial instruments

Foreign exchange forward contracts

Cash flow hedges

The Group's currency pairs used for cash flow hedges are Euro / U.S. dollar, Euro / Australian dollar, Euro / British pound, Euro / Swedish krona, Euro / Canadian dollar, and Euro / Norwegian krone. The notional principal of foreign exchange contracts hedging the revenue and cost of revenue line items in the condensed consolidated statement of operations was approximately €1,222 million and €870 million, respectively, as of March 31, 2022, and approximately €1,185 million and €835 million, respectively, as of December 31, 2021.

Fair values

The carrying amounts of certain financial instruments, including cash and cash equivalents, trade and other receivables, restricted cash, trade and other payables, and accrued expenses and other liabilities approximate fair value due to their relatively short maturities. All other financial assets and liabilities are accounted for at fair value.

The following tables summarize, by major security type, the Group's financial assets and liabilities that are measured at fair value on a recurring basis, and the category using the fair value hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	March 31, 2022
	(in € millions)			
Financial assets at fair value				
Cash equivalents:				
Money market funds	1,966	—	—	1,966
Time Deposits	72	—	—	72
Short term investments:				
Money market funds	25	—	—	25
Government securities	226	18	—	244
Corporate notes	—	295	—	295
Collateralized reverse purchase agreements	—	69	—	69
Fixed income funds	183	—	—	183
Derivatives (designated for hedging):				
Foreign exchange forwards	—	14	—	14
Long term investments	631	—	51	682
Total financial assets at fair value	**3,103**	**396**	**51**	**3,550**
Financial liabilities at fair value				
Exchangeable Notes	—	—	1,146	1,146
Derivatives (not designated for hedging):				
Warrants	—	—	22	22
Derivatives (designated for hedging):				
Foreign exchange forwards	—	20	—	20
Contingent consideration	—	—	18	18
Total financial liabilities at fair value	**—**	**20**	**1,186**	**1,206**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2021
	(in € millions)			
Financial assets at fair value				
Cash equivalents:				
Money market funds	1,970	—	—	1,970
Short term investments:				
Money market funds	25	—	—	25
Government securities	204	18	—	222
Corporate notes	—	308	—	308
Collateralized reverse purchase agreements	—	67	—	67
Fixed income funds	134	—	—	134
Derivatives (designated for hedging):				
Foreign exchange forwards	—	11	—	11
Long term investments	852	—	64	916
Total financial assets at fair value	**3,185**	**404**	**64**	**3,653**
Financial liabilities at fair value				
Exchangeable Notes	—	—	1,202	1,202
Derivatives (not designated for hedging):				—
Warrants	—	—	72	72
Derivatives (designated for hedging):				
Foreign exchange forwards	—	17	—	17
Contingent consideration	—	—	17	17
Total financial liabilities at fair value	**—**	**17**	**1,291**	**1,308**

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels at the end of each reporting period. During the three months ended March 31, 2022, there were no transfers between levels in the fair value hierarchy.

Recurring fair value measurements

Long term investment - Tencent Music Entertainment Group

The Group's approximate 8% investment in TME is carried at fair value through other comprehensive (loss)/income. The fair value of ordinary shares of TME is based on the ending New York Stock Exchange American depository share price. The fair value of the investment in TME may vary over time and is subject to a variety of risks including company performance, macro-economic, regulatory, industry, USD to Euro exchange rate and systemic risks of the equity markets overall.

The table below presents the changes in the investment in TME:

	2022	2021
	(in € millions)	
At January 1	**852**	**2,228**
Changes in fair value recorded in other comprehensive (loss)/income	(230)	243
At March 31	**622**	**2,471**

A 10% decrease or increase in TME's share price would have resulted in a fair value of the Group's long term investment in TME ranging from €560 million to €684 million at March 31, 2022.

The following sections describe the valuation methodologies the Group uses to measure its Level 3 financial instruments at fair value on a recurring basis.

Long term investments - Other

The Group has interests in certain long term investments, the most significant of which is our equity investment in Kid Distro Holdings, LLC ("DistroKid"), an independent digital music distribution service. These long term investments primarily represent unlisted equity securities carried at fair value through other comprehensive (loss)/income. The fair values of these equity investments are generally determined using business enterprise values based on market transactions or by (i) applying market multiples to the projected financial performance and (ii) discounting the future value to its present value equivalent. The key assumptions used to estimate the fair value of these equity investments include market multiples of revenue or earnings before interest, income taxes, depreciation and amortization for benchmark companies used to estimate business enterprise value and discount rate.

The fair value of the long term investments may vary over time and is subject to a variety of risks including company performance, macroeconomic, regulatory, industry, USD to Euro exchange rate, and systemic risks of the overall equity markets.

The table below presents the changes in the other long term investments:

	2022	2021
	(in € millions)	
At January 1	**64**	**49**
Changes in fair value recorded in other comprehensive (loss)/income	(15)	2
Changes in fair value recognized in condensed consolidated statement of operations	10	(1)
Return of capital	(8)	—
Effect of changes in foreign exchange rates	—	1
At March 31	**51**	**51**

Warrants

As of March 31, 2022 and December 31, 2021, the number of outstanding warrants was 1,600,000.

The outstanding warrants are valued using a Black-Scholes option-pricing model. Assumptions used to estimate the fair value of the warrants in the option pricing model are as follows:

	March 31, 2022
Expected term (years)	0.25 - 2.40
Risk free rate (%)	0.53 - 2.35
Volatility (%)	50.0 - 75.0
Share price (US$)	151.02

The table below presents the changes in the warrants liability:

	2022	2021
	(in € millions)	
At January 1	**72**	**89**
Changes in fair value recognized in condensed consolidated statement of operations	(53)	(25)
Effect of changes in foreign exchange rates	3	3
At March 31	**22**	**67**

A 10% decrease or increase in the Company's ordinary share price would have resulted in a fair value of the warrants ranging from €15 million to €30 million at March 31, 2022.

Contingent consideration

On April 1, 2019, the Group acquired Cutler Media, LLC ("Parcast"), a premier storytelling podcast studio. Included in the purchase price was €13 million related to the estimated fair value of contingent consideration. The contingent consideration is valued by the Group using a simulation of user engagement outcomes. The change in the fair value of the contingent consideration is recognized within general and administrative expenses in the condensed consolidated statement of operations.

The table below presents the changes in the contingent consideration liability:

	2022	2021
	(in € millions)	
At January 1	**17**	**30**
Changes in fair value recognized in condensed consolidated statement of operations	—	1
Effect of changes in foreign exchange rates	1	2
At March 31	**18**	**33**

As of March 31, 2022, the remaining maximum potential contingent consideration payout is €18 million which is to be paid in the second quarter of fiscal 2022.

Exchangeable Notes

The table below presents the changes in the Exchangeable Notes:

	2022	2021
	(in € millions)	
At January 1	**1,202**	**—**
Initial recognition	—	1,232
Changes in fair value recognized in condensed consolidated statement of operations	(90)	(49)
Effect of changes in foreign exchange rates	34	46
At March 31	**1,146**	**1,229**

The change in estimated fair value is recognized within finance income/(costs) in the condensed consolidated statement of operations, excluding changes in fair value due to changes in the Group's own credit risk, which are recognized in other comprehensive (loss)/income and will not be reclassified to the condensed consolidated statement of operations.

The fair value of the Exchangeable Notes was estimated using a combination of a binomial option pricing model and prices observed for the Exchangeable Notes in an over-the-counter market on the last trading day of the reporting period. A weight of 75% was applied to the binomial option pricing model and a weight of 25% was applied to the price of the Exchangeable Notes in the over-the-counter market on the last trading day of the reporting period. The key assumptions used in the binomial option pricing model for the Exchangeable Notes were as follows:

	March 31, 2022
Risk free rate (%)	2.4
Discount rate (%)	5.2
Volatility (%)	45.0
Share price (US$)	151.02

A decrease or increase of 10 percentage points in volatility would have resulted in a fair value of the Exchangeable Notes ranging from €1,130 million to €1,166 million at March 31, 2022. A 10% decrease or increase in the Company's ordinary share price would have resulted in a fair value of the Exchangeable Notes ranging from €1,139 million to €1,154 million at March 31, 2022.

22. Commitments and contingencies

Commitments

The Group is subject to the following minimum guarantees relating to the content on its Service, the majority of which relate to minimum royalty payments associated with its license agreements for the use of licensed content:

	March 31, 2022	December 31, 2021
	(in € millions)	
Not later than one year	781	788
Later than one year but not more than five years	1,981	2,491
	2,762	**3,279**

In addition, the Group is subject to various non-cancelable purchase obligations and service agreements with minimum spend commitments, including a service agreement with Google for the use of Google Cloud Platform and certain podcast and marketing commitments:

	March 31, 2022	December 31, 2021
	(in € millions)	
Not later than one year	401	362
Later than one year but not more than five years	686	435
More than five years	140	—
	1,227	**797**

Contingencies

Various legal actions, proceedings, and claims are pending or may be instituted or asserted against the Group. These may include, but are not limited to, matters arising from alleged infringement of intellectual property; alleged violations of consumer regulations; employment-related matters; and disputes arising from supplier and other contractual relationships. As a general matter, the music and other content made available on the Group's Service are licensed to the Group by various third parties. Many of these licenses allow rights holders to audit the Group's royalty payments, and any such audit could result in disputes over whether the Group has paid the proper royalties. If such a dispute were to occur, the Group could be required to pay additional royalties, and the amounts involved could be material. The Group expenses legal fees as incurred. The Group records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Group's operations or its financial position, liquidity, or results of operations.

On August 11, 2020, the United States Court of Appeals for the D.C. Circuit issued an opinion which, as of the issuance of the formal “mandate” on October 26, 2020, vacated the Copyright Royalty Board’s determination of the royalty rates for applicable mechanical rights in the United States for calendar years 2018 to 2022. These rates apply both to compositions that we license under compulsory license pursuant to Section 115 of the Copyright Act of 1976 and to a number of direct licenses that we have with music publishers. Until the final rates are determined, our recorded royalty costs both retrospectively and prospectively will be based on management estimates of the rates that will apply. When the rates are determined anew, these could either benefit or adversely affect our results of operations and financial condition.

23. Events after the reporting period

Subsequent to the end of the reporting period, the Group signed license agreements with certain publishers which include minimum guarantee and spend commitments of approximately €116 million over the next two years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

This discussion and analysis reflects our historical results of operations and financial position and contains estimates and forward-looking statements. All statements other than statements of historical fact are forward-looking statements. The words "may," "might," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "seek," "believe," "estimate," "predict," "potential," "continue," "contemplate," "possible," and similar words are intended to identify estimates and forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to numerous risks and uncertainties and are made in light of information currently available to us. Many important factors may adversely affect our results as indicated in forward-looking statements. These factors include, but are not limited to:

- our ability to attract prospective users, retain existing users, and monetize our products and services;
- competition for users, user listening time, and advertisers;
- risks associated with our international operations and our ability to manage our growth;
- our emphasis on innovation and long-term user engagement over short-term results;
- our ability to predict, recommend, and play content that our users enjoy;
- our ability to be profitable or generate positive cash flow on a sustained basis;
- our ability to convince advertisers of the benefits of our advertising offerings;
- our ability to forecast or optimize advertising inventory amid emerging industry trends in digital advertising;
- our ability to generate revenues from podcasts and other non-music content;
- potential disputes or liabilities associated with content made available on our Service (as defined above);
- risks relating to acquisitions, investments, and strategic alliances;
- the impact of the COVID-19 pandemic and other public health crises;
- our dependence upon third-party licenses for most of the content we stream;
- our lack of control over third-party content providers who are concentrated and can unilaterally affect our access to content;
- our ability to comply with complex license agreements;
- our ability to accurately estimate royalty payments under our license agreements and relevant statutes;
- the limitations on our operating flexibility due to financial commitments required under certain of our license agreements;
- our ability to identify the compositions and ownership thereof embodied in sound recordings in order to obtain licenses or comply with existing license agreements;
- assertions by third parties of infringement or other violations by us of their intellectual property rights;
- our ability to protect our intellectual property;
- the dependence of streaming on operating systems, online platforms, hardware, networks, regulations, and standards that we do not control;
- our ability to maintain user data security;
- undetected errors, bugs, or vulnerabilities in our products;
- interruptions, delays, or discontinuations in service arising from our systems or systems of third parties;
- changes in laws or regulations affecting us;
- risks relating to privacy and data security;
- our ability to maintain, protect, and enhance our brand;
- our ability to achieve our net zero emissions target or make progress in other environmental, social, and governance initiatives;
- payment-related risks;
- our dependence on key personnel and ability to attract, retain, and motivate highly skilled employees;
- our ability to access capital to support growth;
- risks relating to currency exchange rate fluctuations and foreign exchange controls;
- the impact of economic, social, or political conditions, such as the current conflict between Russia and Ukraine;
- our ability to accurately estimate user metrics and other estimates;
- our ability to manage and remediate attempts to manipulate streams and attempts to gain or provide unauthorized access to certain features of our Service;
- risks related to our Exchangeable Notes (as defined above);

- tax-related risks;
- the concentration of voting power among our founders, which limits shareholders' ability to influence our governance and business; and
- risks related to our status as a foreign private issuer and a Luxembourg company.

We operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor are we able to assess the impact of all of these risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements.

We qualify all of our forward-looking statements by these cautionary statements. For additional information, refer to the risk factors discussed under Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F for the year ended December 31, 2021 ("Annual Report on Form 20-F"), Part II, Item 1A. "Risk Factors" below, and in our other filings with the U.S. Securities and Exchange Commission ("SEC").

You should read this discussion and analysis completely and with the understanding that our actual future results may be materially different from our expectations.

Investors and others should note that we announce material financial information to our investors using our Investors website (investors.spotify.com), SEC filings, press releases, public conference calls, and webcasts. We use these channels, as well as social media, to communicate with our users and the public about our company, our Service, and other issues. It is possible that the information we post on these channels could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our Company to review the information we post on the channels listed on our Investors website.

Overview

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.

We are the world's most popular audio streaming subscription service. With a presence in 183 countries and territories, our platform includes 422 million monthly active users ("MAUs"), including 182 million Premium Subscribers (as defined below) as of March 31, 2022.

We currently monetize our Service through both subscriptions and advertising. Our Premium Subscribers have grown 15% year-over-year, as of March 31, 2022, to 182 million. Our 422 million MAUs have grown 19% year-over-year, as of March 31, 2022.

Our results reflect the effects of our trial programs, both discounted and free trials, in addition to seasonal trends in user behavior and, with respect to our Ad-Supported segment, advertising behavior. Historically, Premium Subscriber growth accelerates when we run such trial programs.

For our Ad-Supported segment, typically we experience higher advertising revenue in the fourth quarter of each calendar year due to greater advertising demand during the holiday season. However, in the first quarter of each calendar year, we typically experience a seasonal decline in advertising revenue due to reduced advertiser demand.

Acquisitions

During February 2022, the Group acquired Podsights and Chartable to provide improved podcast ad measurement and analytics services for a total purchase consideration of €83 million. These acquisitions allow the Group to expand and scale its podcast monetization and product offering for advertisers and publishers.

Global Marketing Partnerships

On March 15, 2022, we announced a long-term partnership with FC Barcelona whereby Spotify will become the Main Partner of the Club and its Official Audio Streaming Partner. This partnership will allow Spotify to amplify artist voices, connect artists to new and existing fans, and help grow our global user base across key growth markets and audience segments.

Long term investment - Tencent Music Entertainment Group

During the three months ended March 31, 2022, the fair value of our holdings in TME decreased by €230 million from €852 million as of December 31, 2021 to €622 million as of March 31, 2022 due to the decline in TME's share price during this period. The market value of our investment in TME fluctuates due to volatility in the share price used to measure the investment. Furthermore, the value of our investment is subject to the risks associated with TME's business, as well as any changes by the Chinese government in foreign investment laws or elevated scrutiny or regulation of foreign investments in Chinese companies.

Impact of Russia-Ukraine Conflict

In February 2022, as a result of the Russia-Ukraine conflict, economic sanctions were imposed on Russian individuals and entities, including financial institutions, by countries around the world, including the U.S. and the European Union.

During March 2022, we began winding down our operations and suspending our service in Russia. By April 11, 2022, we have fully suspended our service in Russia. Suspension of our service did not have a material impact to our business, operating results, or financial condition.

For the first quarter of fiscal 2022, due to the suspension of our service in Russia, we saw an involuntary churn of approximately 2 million Premium Subscribers. We expect an additional involuntary churn of approximately 1 million Premium Subscribers for the second quarter of fiscal 2022. MAUs and Ad-Supported MAUs as of March 31, 2022 each included approximately 5 million users from Russia.

For additional information, see "Key Performance Indicators" section below. Also, refer to Part II, Item 1A. "Risk Factors" below.

Key Performance Indicators

We use certain key performance indicators to monitor and manage our business. We use these indicators to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions. We believe these indicators provide useful information to investors in understanding and evaluating our operating results in the same manner we do.

MAUs

We track MAUs as an indicator of the size of the audience engaged with our Service. We define MAUs as the total count of Ad-Supported Users and Premium Subscribers that have consumed content for greater than zero milliseconds in the last thirty days from the period-end indicated. Reported MAUs may overstate the number of unique individuals who actively use our Service within a thirty-day period as one individual may register for, and use, multiple accounts. Additionally, though we strive to detect and minimize non-bona fide accounts that may typically be created in an attempt to artificially stream content, they may contribute, from time to time, to an overstatement in our reported MAUs. Our MAUs in the tables below are inclusive of Ad-Supported Users who may have employed methods to limit or otherwise avoid being served advertisements. For additional information, refer to the risk factors discussed under Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F, and in our other filings with the SEC.

The table below sets forth our MAUs as of March 31, 2022 and 2021.

	As of March 31			
	2022	2021	Change	
	(in millions, except percentages)			
MAUs	422	356	66	19 %

MAUs were 422 million as of March 31, 2022 and 356 million as of March 31, 2021, which represented an increase of 19%. MAUs benefited from our continued investment in driving the growth of our Service, both through geographic expansion and consumer marketing. MAUs also benefited from continued investment in content and features on our platform, including featured playlists, artist marketing campaigns, podcasts, and original content, to drive increased user engagement and customer satisfaction.

MAUs as of March 31, 2022 in the table above included approximately 5 million users from Russian operations, which have been suspended as of April 11, 2022.

During March 2022, there was a brief service outage that caused users to be involuntarily logged out of the Spotify application. As a result, we believe certain affected users created new accounts to log back into the application, resulting in approximately 3 million additional MAUs as of March 31, 2022. During the second quarter of fiscal 2022, following the one month anniversary of the outage, we saw a reversal of the approximate 3 million MAUs.

Premium Subscribers

We define Premium Subscribers as users that have completed registration with Spotify and have activated a payment method for Premium Service. Our Premium Subscribers include all registered accounts in our Family Plan and Duo Plan. Our Family Plan consists of one primary subscriber and up to five additional sub-accounts, allowing up to six Premium Subscribers per Family Plan Subscription. Our Duo Plan consists of one primary subscriber and up to one additional sub-account, allowing up to two Premium Subscribers per Duo Plan Subscription. Premium Subscribers includes subscribers in a grace period of up to 30 days after failing to pay their subscription fee.

The table below sets forth our Premium Subscribers as of March 31, 2022 and 2021.

	As of March 31			
	2022	2021	Change	
	(in millions, except percentages)			
Premium Subscribers	182	158	24	15 %

Premium Subscribers were 182 million as of March 31, 2022 and 158 million as of March 31, 2021, which represented an increase of 15%. The increase was due primarily to our Family Plan, while free trial offers and global campaigns related to our standard plan also accounted for a significant portion of gross added Premium Subscribers.

Premium Subscribers as of March 31, 2022 in the table above included approximately 1 million users from Russian operations, which have been suspended as of April 11, 2022. For the first quarter of fiscal 2022, due to the suspension of our service in Russia, we saw an involuntary churn of approximately 2 million Premium Subscribers. We expect an additional involuntary churn of approximately 1 million Premium Subscribers for the second quarter of fiscal 2022.

Ad-Supported MAUs

We define Ad-Supported MAUs as the total count of Ad-Supported Users that have consumed content for greater than zero milliseconds in the last thirty days from the period-end indicated.

The table below sets forth our Ad-Supported MAUs as of March 31, 2022 and 2021.

	As of March 31			
	2022	2021	Change	
	(in millions, except percentages)			
Ad-Supported MAUs	252	208	44	21 %

Ad-Supported MAUs were 252 million as of March 31, 2022 and 208 million as of March 31, 2021, which represented an increase of 21%. Ad-Supported MAUs benefited from our continued investment in driving the growth of our Ad-Supported Service, both through geographic expansion and consumer marketing. Ad-Supported MAUs also benefited from continued investment in content and features on our platform, including featured playlists, artist marketing campaigns, podcasts, and original content, to drive increased Ad-Supported User engagement and customer satisfaction.

Ad-Supported MAUs as of March 31, 2022 in the table above included approximately 5 million users from Russian operations, which have been suspended as of April 11, 2022.

During March 2022, there was a brief service outage that caused users to be involuntarily logged out of the Spotify application. As a result, we believe certain affected users created new accounts to log back into the application, resulting in approximately 3 million additional Ad-Supported MAUs as of March 31, 2022. During the second quarter of fiscal 2022, following the one month anniversary of the outage, we saw a reversal of the approximate 3 million Ad-Supported MAUs.

Premium ARPU

Premium average revenue per user ("ARPU") is a monthly measure defined as Premium subscription revenue recognized in the quarter indicated divided by the average daily Premium Subscribers in such quarter, which is then divided by three months.

The table below sets forth our average Premium ARPU for the three months ended March 31, 2022 and 2021.

	Three months ended March 31,			
	2022	2021	Change	
Premium ARPU	€ 4.38	€ 4.12	€ 0.26	6 %

For the three months ended March 31, 2022 and 2021, Premium ARPU was €4.38 and €4.12, respectively, which represented an increase of 6%. This increase of €0.26 is primarily attributable to movements in foreign exchange rates, increasing Premium ARPU by €0.15. Additionally, there was an increase in ARPU for the Family Plan, as a result of price increases, as well as an increase in ARPU as a result of changes in Premium Subscriber mix.

How We Generate Revenue

We operate and manage our business in two reportable segments - Premium and Ad-Supported. We identify our reportable segments based on the organizational units used by the chief operating decision maker to monitor performance and make operating decisions. See Note 5 to our interim condensed consolidated financial statements for additional information regarding our reportable segments.

Premium

We generate revenue for our Premium segment through the sale of the Premium Service. The Premium Service is sold directly to end users and through partners who are generally telecommunications companies that bundle the subscription with their own services or collect payment for the stand-alone subscriptions from their end customers. Premium partner subscription revenue is based on a per-subscriber rate in a negotiated partner agreement. We also bundle the Premium Service with other services and products.

Ad-Supported

We generate revenue for our Ad-Supported segment from the sale of display, audio, and video advertising delivered through advertising impressions across our music and podcast content. We generally enter into arrangements with advertising agencies that purchase advertising on our platform on behalf of their clients and we also enter into arrangements directly with some large advertisers. These advertising arrangements are typically sold on a cost-per-thousand basis and are evidenced by an insertion order that specifies the terms of the arrangement such as the type of advertising product, pricing, insertion dates, and number of impressions or downloads in a stated period. Additionally, we generate revenue through arrangements with certain advertising automated exchanges, internal self-serve, and advertising marketplace platforms to distribute advertising inventory for purchase on a cost-per-thousand basis. These advertising arrangements typically specify the type of advertising product, pricing, insertion dates, and number of impressions in a stated period.

Components of our Operating Results

Cost of Revenue. Cost of revenue consists predominantly of royalty and distribution costs related to content streaming. We incur royalty costs, which we pay to certain record labels, music publishers, and other rights holders, for the right to stream music to our users. Royalties are typically calculated monthly based on the combination of a number of different elements. Generally, Premium Service royalties are based on the greater of a percentage of revenue and a per user amount. Royalties for the Ad-Supported Service are typically a percentage of relevant revenue, although certain agreements are based on the greater of a percentage of relevant revenue and an amount for each time a sound recording and musical composition are streamed. We have negotiated lower per user amounts for our lower priced subscription plans such as Family Plan, Duo Plan, and Student Plan users. In our agreements with certain record labels, the percentage of revenue used in the calculation of royalties is generally dependent upon certain targets being met. The targets can include such measures as the number of Premium Subscribers, the ratio of Ad-Supported Users to Premium Subscribers, and/or the rates of Premium Subscriber churn. In addition, royalty rates vary by country. Some of our royalty agreements require that royalty costs be paid in advance or are subject to minimum guaranteed amounts. For the majority of royalty agreements, incremental costs incurred due to un-recouped advances and minimum guarantees have not been significant to date. We also have certain so-called most favored nation royalty agreements, which require us to record additional costs if certain material contract terms are not as favorable as the terms we

have agreed to with similar licensors. Cost of revenue also reflects discounts provided by certain rights holders in return for promotional activities in connection with marketplace programs. Additionally, it includes the costs of discounted trials.

Cost of revenue also includes the amortization of podcast content assets (both produced and licensed). Amortization of podcast content assets is recorded over the shorter of the estimated useful economic life or the license period (if relevant) and begins at the release of each episode. We make payments to podcast publishers, whose content we monetize through advertising sales, which are also included in cost of revenue.

Cost of revenue also includes credit card and payment processing fees for subscription revenue, customer service, certain employee compensation and benefits, cloud computing, streaming, facility, and equipment costs.

Research and Development. We invest heavily in research and development in order to drive user engagement and customer satisfaction on our platform, which we believe helps drive organic growth in MAUs, which, in turn, drives additional growth in, and better retention of, Premium Subscribers, as well as increased advertising opportunities to our users. We aim to design products and features that create and enhance user experiences, and new technologies are at the core of many of these opportunities. Expenses primarily comprise costs incurred for the development of products related to our platform and Service, as well as new advertising products and improvements to our mobile application and desktop application and streaming services. The costs incurred include related facility costs, consulting costs, and employee compensation and benefits costs. We expect engineers to represent a significant portion of our employees over the foreseeable future.

Many of our new products and improvements to our platform require large investments and involve substantial time and risks to develop and launch. Some of these products may not be well received or may take a long time for users to adopt. As a result, the benefits of our research and development investments are difficult to forecast.

Sales and Marketing. Sales and marketing expenses primarily comprise employee compensation and benefits, public relations, branding, consulting expenses, customer acquisition costs, advertising, marketing events and trade shows, amortization of trade name intangible assets, the cost of working with music record labels, publishers, songwriters, and artists to promote the availability of new releases on our platform, and the costs of providing free trials of our Premium Service. Expenses included in the cost of providing free trials are derived primarily from per user royalty fees determined in accordance with the rights holder agreements.

General and Administrative. General and administrative expenses primarily comprise employee compensation and benefits for functions such as finance, accounting, analytics, legal, human resources, consulting fees, and other costs including facility and equipment costs, directors' and officers' liability insurance, director fees, and fair value adjustments on contingent consideration.

Results of Operations

Impact of COVID-19 pandemic

The COVID-19 pandemic has created significant volatility, uncertainty, and economic disruption. In response to the COVID-19 pandemic, we have taken a number of actions focused on protecting the health and safety of our employees, maintaining business continuity, and supporting the global music community, including providing the ability to work-from-home for our employees.

The full impact of the COVID-19 pandemic on our business, financial condition, and results of operations will depend on numerous evolving factors that we may not be able to accurately predict and that will vary by market, including the duration and scope of the pandemic, including any resurgences, the impact of the pandemic on economic activity, and actions taken by governments, businesses, and individuals in response. We will continue to actively monitor and respond accordingly to the changing conditions created by the pandemic. Refer to Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F for further discussion of the impact of the COVID-19 pandemic on our business, operating results, and financial condition.

Revenue

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Premium	2,379	1,931	448	23 %
Ad-Supported	282	216	66	31 %
Total	**2,661**	**2,147**	**514**	**24 %**

Premium revenue

For the three months ended March 31, 2022 and 2021, Premium revenue comprised 89% and 90% of our total revenue, respectively. For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, Premium revenue increased €448 million, or 23%. The increase was attributable primarily to a 15% increase in the number of Premium Subscribers and an increase in Premium ARPU, as noted above.

Ad-Supported revenue

For the three months ended March 31, 2022 and 2021, Ad-Supported revenue comprised 11% and 10% of our total revenue, respectively. For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, Ad-Supported revenue increased €66 million, or 31%. This increase was due to growth in music impressions sold, growth in CPM (cost per 1,000 impressions), and improvements in sell-through rate, which increased revenue in our direct and programmatic channels by €29 million. Ad sales from our self-serve platform and podcast ad sales also contributed to the increase in revenue during the three months ended March 31, 2022.

Foreign exchange impact on total revenue

The general movement of the Euro relative to certain foreign currencies, primarily the U.S. Dollar, for the three months ended March 31, 2022, as compared to the same period in 2021, had a favorable net impact on our revenue. We estimate that total revenue for the three months ended March 31, 2022 would have been approximately €109 million lower, if foreign exchange rates had remained consistent with foreign exchange rates for the comparable period in 2021.

Cost of revenue

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Premium	1,704	1,393	311	22 %
Ad-Supported	286	206	80	39 %
Total	**1,990**	**1,599**	**391**	**24 %**

Premium cost of revenue

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, Premium cost of revenue increased €311 million, or 22%, and Premium cost of revenue as a percentage of Premium revenue remained flat at 72%. The increase in Premium cost of revenue was driven primarily by growth in new Premium Subscribers and publishing licensing rate increases, partially offset by benefits from certain marketplace programs, collectively resulting in higher royalty costs of €285 million.

Ad-Supported cost of revenue

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, Ad-Supported cost of revenue increased €80 million, or 39%, and Ad-Supported cost of revenue as a percentage of Ad-Supported revenue increased from 95% to 101%. The increase in Ad-Supported cost of revenue was driven primarily by higher royalty costs and SPAN revenue sharing arrangement costs of €44 million due to growth in both advertising revenue and streams as well as publishing licensing rate increases. There was also an increase in other content costs of €26 million.

Foreign exchange impact on total cost of revenue

The general movement of the Euro relative to certain foreign currencies, primarily the U.S. Dollar, for the three months ended March 31, 2022, as compared to the same periods in 2021, had an unfavorable net impact on our cost of revenue. We estimate that total cost of revenue for the three months ended March 31, 2022 would have been approximately €73 million lower, if foreign exchange rates had remained consistent with foreign exchange rates for the comparable periods in 2021.

Gross profit/(loss) and gross margin

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Gross profit/(loss)				
Premium	675	538	137	25 %
Ad-Supported	(4)	10	(14)	N/M*
Consolidated	**671**	**548**	**123**	**22 %**
Gross margin				
Premium	28 %	28 %		
Ad-Supported	(1)%	4 %		
Consolidated	**25 %**	**26 %**		

** Percentage change is not meaningful for presentation purpose.*

Premium gross profit and gross margin

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, Premium gross profit increased by €137 million, and Premium gross margin remained flat at 28%. Premium gross margin remained flat due to benefits from certain marketplace programs offset by increases in publishing licensing rates during the three months ended March 31, 2022.

Ad-Supported gross profit/(loss) and gross margin

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, Ad-Supported gross profit decreased by €14 million, and gross margin decreased from 4% to (1)%. The decrease in Ad-Supported gross margin was due primarily to an increase in royalty costs due to growth in both advertising revenue and streams as well as publishing licensing rate increases during the three months ended March 31, 2022. An increase in other content costs also contributed to the decrease in Ad-Supported gross margin.

Consolidated Operating expenses

Research and development

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Research and development	250	196	54	28 %
As a percentage of revenue	**9 %**	**9 %**		

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, research and development costs increased by €54 million, or 28%. The increase was due primarily to an increase in personnel-related costs of salaries, share-based compensation, and other employee benefits of €48 million as a result of increased headcount to support our growth, partially offset by a decrease in social costs of €20 million driven by share price movements. In addition, there was an increase in information technology costs of €11 million due to increase in our usage of cloud computing services and additional software license fees.

Sales and marketing

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Sales and marketing	296	236	60	25 %
As a percentage of revenue	**11 %**	**11 %**		

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, sales and marketing expense increased by €60 million, or 25%. The increase was due primarily to an increase in advertising costs of €33 million for marketing campaigns. There was also an increase in personnel-related costs of salaries, share-based compensation, and other employee benefits of €22 million as a result of increased headcount to support our growth, partially offset by a decrease in social costs of €5 million driven by share price movements.

General and administrative

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
General and administrative	131	102	29	28 %
As a percentage of revenue	**5 %**	**5 %**		

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, general and administrative expense increased by €29 million, or 28%. The increase was due primarily to an increase in personnel-related costs for salaries, share-based compensation, and other employee benefits of €14 million, as a result of increased headcount to support our growth. Additionally, there was an increase in consulting costs of €11 million.

Finance income

Finance income consists of fair value adjustment gains on certain financial instruments, interest income earned on our cash and cash equivalents and short term investments, and foreign currency gains.

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Finance income	175	104	71	68 %
As a percentage of revenue	**7 %**	**5 %**		

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, finance income increased €71 million due primarily to an increase in the fair value gain recorded for the Exchangeable Notes of €41 million. There was also an increase in fair value gains recorded for warrants of €28 million.

Finance costs

Finance costs consist of fair value adjustment losses on certain financial instruments, interest expense, transaction costs from the issuance of Exchangeable Notes, and foreign currency losses.

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Finance costs	(14)	(31)	17	(55)%
As a percentage of revenue	**(1)%**	**(1)%**		

For the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, finance costs decreased €17 million. The decrease was due primarily to €18 million of transaction costs recorded during the three months ended March 31, 2021 in connection with the issuance of the Exchangeable Notes.

Income tax expense

	Three months ended March 31,			
	2022	2021	Change	
	(in € millions, except percentages)			
Income tax expense	24	64	(40)	(63)%
As a percentage of revenue	**1 %**	**3 %**		

For the three months ended March 31, 2022, income tax expense was €24 million, compared to an income tax expense of €64 million for the three months ended March 31, 2021. The expense for the three months ended March 31, 2022 is due primarily to current period share-based compensation deductions recognized in equity. The expense for the three months ended March 31, 2021 was due primarily to reassessment of uncertain tax positions and current period share-based compensation deductions recognized in equity.

Non-IFRS Financial Measure

We have reported our financial results in accordance with IFRS as issued by IASB. In addition, we have discussed our results using the non-IFRS measure of Free Cash Flow as discussed below.

We define "Free Cash Flow" as net cash flows from operating activities less capital expenditures and change in restricted cash. We believe Free Cash Flow is a useful supplemental financial measure for us and investors in assessing our ability to pursue business opportunities and investments. Free Cash Flow is not a measure of our liquidity under IFRS and should not be considered as an alternative to net cash flows from operating activities.

Free Cash Flow is a non-IFRS measure and is not a substitute for IFRS measures in assessing our overall financial performance. Because Free Cash Flow is not a measurement determined in accordance with IFRS, and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies. You should not consider Free Cash Flow in isolation, or as a substitute for an analysis of our results as reported on our interim condensed consolidated financial statements appearing elsewhere in this document.

Set forth below is a reconciliation of Free Cash Flow to net cash flows from operating activities for the periods presented.

	Three months ended March 31,	
	2022	2021
	(in € millions)	
Net cash flows from operating activities	37	65
Capital expenditures	(10)	(24)
Change in restricted cash	(5)	—
Free Cash Flow	**22**	**41**

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, short term investments, and cash generated from operating activities. Cash and cash equivalents and short term investments consist mostly of cash on deposit with banks, investments in money market funds, and investments in government securities, corporate debt securities, and collateralized reverse purchase agreements. Cash and cash equivalents and short term investments increased by €37 million from €3,500 million as of December 31, 2021 to €3,537 million as of March 31, 2022.

We believe our existing cash and cash equivalents, short term investments, and the cash flow we generate from our operations will be sufficient to meet our working capital and capital expenditure needs and other liquidity requirements for at least the next 12 months. However, our future capital requirements may be materially different than those currently planned in our budgeting and forecasting activities and depend on many factors, including our rate of revenue growth, the timing and extent of spending on content and research and development, the expansion of our sales and marketing activities, the timing of new product introductions, market acceptance of our products, our continued international expansion, the acquisition of other companies, competitive factors, the COVID-19 pandemic, and global economic conditions. To the extent that current and

anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our shareholders, while the incurrence of debt financing would result in debt service obligations. Such debt instruments also could introduce covenants that might restrict our operations. We cannot assure you that we could obtain additional financing on favorable terms, or at all. While the COVID-19 pandemic has not materially impacted our liquidity and capital resources to date, it has led to increased disruption and volatility in capital markets and credit markets. The pandemic and resulting economic uncertainty could adversely affect our liquidity and capital resources in the future. Based on past performance and current expectations, we believe our strong cash and cash equivalents and short term investments position are critical at this time of uncertainty due to the COVID-19 pandemic, and allow us to use our cash resources for working capital needs, capital expenditures, investment requirements, contractual obligations, commitments, and other liquidity requirements associated with our operations. For additional information, refer to Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F.

Share Repurchase Program

On August 20, 2021, the Company announced that the board of directors had approved a program to repurchase up to $1.0 billion of the Company's ordinary shares. Repurchases of up to 10,000,000 of the Company's ordinary shares were authorized at the Company's general meeting of shareholders on April 21, 2021. The repurchase program will expire on April 21, 2026. Since the commencement of this repurchase program and through March 31, 2022, 469,274 shares were repurchased for €94 million under this program.

The timing and actual number of shares repurchased depends on a variety of factors, including price, general business and market conditions, and alternative investment opportunities. The repurchase program is executed consistent with the Company's capital allocation strategy of prioritizing investment to grow the business over the long term. The repurchase program does not obligate the Company to acquire any particular amount of ordinary shares, and the repurchase program may be suspended or discontinued at any time at the Company's discretion. The Company uses current cash and cash equivalents and the cash flow it generates from operations to fund the share repurchase program.

Exchangeable Notes

On March 2, 2021, Spotify USA Inc. issued US$1,500 million in aggregate principal amount of the Exchangeable Notes. Net proceeds from the issuance of the Exchangeable Notes were €1,223 million after deducting the transaction costs. See Note 17 to our interim condensed consolidated financial statements for further information regarding our Exchangeable Notes.

Cash Flow

	Three months ended March 31,	
	2022	2021
	(in € millions)	
Net cash flows from operating activities	37	65
Net cash flows used in investing activities	(156)	(114)
Net cash flows from financing activities	22	1,250
Free Cash Flow[(1)]	22	41

(1) For a discussion of the limitations associated with using Free Cash Flow rather than IFRS measures, and a reconciliation of Free Cash Flow to net cash flows from operating activities, see "Non-IFRS Financial Measure" above.

Operating activities

Net cash flows from operating activities decreased by €28 million to €37 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. The decrease was due primarily to unfavorable changes in working capital of €25 million, principally due to unfavorable movements in trade and other liabilities and deferred revenue, partially offset by favorable movements in trade receivables and other assets.

Investing activities

Net cash flows used in investing activities increased by €42 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. The increase was due primarily to an increase in net cash outflows from purchases and sales and maturities of short term investments of €30 million as well as an increase in cash consideration used in business combinations, net of cash acquired, of €26 million. These increases were partially offset by a decrease in purchases of property and equipment of €14 million.

Financing activities

Net cash flows from financing activities decreased by €1,228 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. The decrease was due primarily to net proceeds of €1,223 million from the issuance of Exchangeable Notes during the three months ended March 31, 2021 whereas no such activity occurred during the three months ended March 31, 2022.

Free Cash Flow

Free Cash Flow decreased by €19 million to €22 million for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, due primarily to a decrease in net cash flows from operating activities of €28 million, as described above, partially offset by a decrease in capital expenditures of €14 million.

Restrictions on Subsidiaries to Transfer Funds

The payment of dividends and the making, or repayment, of loans and advances to the Company by the Company's direct subsidiaries and by its indirect subsidiaries to their respective parent entities are subject to various restrictions. Future indebtedness of these subsidiaries may prohibit the payment of dividends or the making, or repayment, of loans or advances to the Company. In addition, the ability of any of the Company's direct or indirect subsidiaries to make certain distributions may be limited by the laws of the relevant jurisdiction in which the subsidiaries are organized or located, including financial assistance rules, corporate benefit laws, liquidity requirements, requirements that dividends must be paid out of reserves available for distribution, and other legal restrictions which, if violated, might require the recipient to refund unlawful payments. Spotify AB, which, directly or indirectly through its subsidiaries, conducts much of the Group's business, may only make dividends to the Company if there would continue to be full coverage of its restricted equity following such dividend, and only if doing so would be considered prudent under Swedish law given the needs of Spotify AB and its subsidiaries. Loans and other advances from Spotify AB to the Company may be subject to essentially the same restrictions as dividends. Since the Company is expected to rely primarily on dividends from its direct and indirect subsidiaries to fund its financial and other obligations, restrictions on its ability to receive such funds may adversely impact the Company's ability to fund its financial and other obligations.

Indebtedness

As of March 31, 2022, our outstanding indebtedness, other than lease liabilities, consisted primarily of the Exchangeable Notes that mature on March 15, 2026 and bear no interest. See Note 17 to our interim condensed consolidated financial statements for further information regarding our Exchangeable Notes. We may from time to time seek to incur additional indebtedness. Such indebtedness, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors.

Off-Balance Sheet Arrangements

As of March 31, 2022, we do not have transactions with unconsolidated entities, such as entities often referred to as structured finance or special purpose entities, whereby we have financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to us.

Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of March 31, 2022:

	Payments due by period				
Contractual obligations:	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in € millions)		
Minimum guarantees [1]	2,762	781	1,981	—	—
Exchangeable Notes [2]	1,356	—	—	1,356	—
Lease obligations [3]	897	96	192	183	426
Purchase obligations [4]	1,227	401	603	83	140
Deferred and contingent consideration [5]	60	30	27	3	—
Total	**6,302**	**1,308**	**2,803**	**1,625**	**566**

(1) We are subject to minimum royalty payments associated with our license agreements for the use of licensed content. See Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F.

(2) Consists of principal on our 0.00% Exchangeable Notes due March 15, 2026.

(3) Included in the lease obligations are short term leases and certain lease agreements that the Group has entered into, but had not yet commenced as of March 31, 2022. Lease obligations relate to our office space. The lease terms are up to twelve years. See Note 9 to the interim condensed consolidated financial statements for further details regarding leases.

(4) We are subject to various non-cancelable purchase obligations and service agreements with minimum spend commitments, including a service agreement with Google for the use of Google Cloud Platform and certain podcast and marketing commitments.

(5) Included in deferred consideration are obligations to transfer €42 million of cash consideration over the next four years to former owners of certain entities we have acquired. Included in contingent consideration is the obligation to transfer a maximum of €18 million to former owners of an entity we acquired if specified user engagement targets are achieved. As of March 31, 2022, the contingency condition has been met and as such the contingent cash consideration will be paid in the second quarter of fiscal 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our activities expose us to a variety of market risks. Our primary market risk exposures relate to currency, interest rate, share price, and investment risks. To manage these risks and our exposure to the unpredictability of financial markets, we seek to minimize potential adverse effects on our financial performance and capital.

Volatile market conditions arising from the COVID-19 pandemic may result in significant changes in foreign exchange rates, interest rates, and share prices, both our own and those of third parties we use to value certain of our long-term investments. Refer to Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F for further discussion on the impact of the COVID-19 pandemic on our business, operating results, and financial condition.

Currency Risk

Currency risk manifests itself in transaction exposure, which relates to business transactions denominated in foreign currency required by operations (purchasing and selling) and/or financing (interest and amortization). The volatility in foreign exchange rates due to the COVID-19 pandemic, in particular a weakening of foreign currencies relative to the Euro, may negatively affect our revenue. Our general policy is to hedge transaction exposure on a case-by-case basis. Translation exposure relates to net investments in foreign operations. We do not conduct translation risk hedging.

Transaction Exposure Sensitivity

In most cases, our customers are billed in their respective local currency. Major payments, such as salaries, consultancy fees, and rental fees are settled in local currencies. Royalty payments are primarily settled in Euros and U.S. dollars. Hence, the operational need to net purchase foreign currency is due primarily to a deficit from such settlements.

The table below shows the immediate impact on Income before tax of a 10% strengthening of foreign currencies relative to the Euro in the closing exchange rate of significant currencies to which we have transaction exposure, at March 31, 2022. The sensitivity associated with a 10% weakening of a particular currency would be equal and opposite. This assumes that each currency moves in isolation.

	USD	SEK
	(in € millions)	
Increase/(decrease) in income before tax	132	(14)

Translation Exposure Sensitivity

The impact on our equity would be approximately €111 million if the Euro weakened by 10% against all translation exposure currencies, based on the exposure at March 31, 2022.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will have a negative impact on earnings and cash flow. Our exposure to interest rate risk is related to our interest-bearing assets, primarily our short term debt securities. Fluctuations in interest rates impact the yield of the investment. The sensitivity analysis considered the historical volatility of short term interest rates and we determined that it was reasonably possible that a change of 100 basis points could be experienced in the near term. A hypothetical 100 basis point increase in interest rates would have impacted interest income by €2 million for the three months ended March 31, 2022.

Share Price Risk

Share price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the fair value of the Company's ordinary share price. Our exposure to this risk relates primarily to the Exchangeable Notes, outstanding warrants, and accrual for social costs on outstanding share-based compensation awards.

A 10% decrease or increase in the Company's ordinary share price would have resulted in a fair value of the Exchangeable Notes ranging from €1,139 million to €1,154 million at March 31, 2022.

A 10% decrease or increase in the Company's ordinary share price would have resulted in a fair value of the warrants ranging from €15 million to €30 million at March 31, 2022.

A 10% decrease or increase in the Company's ordinary share price would have resulted in a change in the accrual for social costs on outstanding share-based compensation awards of €8 million and €10 million, respectively at March 31, 2022.

Investment Risk

We are exposed to investment risk as it relates to changes in the market value of our long term investments, due primarily to volatility in the share price used to measure the investment and exchange rates. The majority of our long term investments relate to TME. A 10% decrease or increase in TME's share price would have resulted in a fair value of the Group's long term investment in TME ranging from €560 million to €684 million at March 31, 2022.

Critical Accounting Policies and Estimates

We prepare our interim condensed consolidated financial statements in accordance with IFRS as issued by the IASB. Preparing these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results may differ from these estimates.

We believe that the assumptions and estimates associated with revenue, share-based compensation, content, warrants, Exchangeable Notes, business combinations, the incremental borrowing rate, and income taxes have the greatest potential impact on our interim condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes or additions to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 20-F.

Recent Accounting Pronouncements

There are no new IFRS or IFRS Interpretation Committee ("IFRIC") interpretations effective for the three months ended March 31, 2022 that have a material impact to the interim condensed consolidated financial statements. See Note 2 to our interim condensed consolidated financial statements included in this document.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to various claims, lawsuits and other legal proceedings. Some of these claims, lawsuits and other legal proceedings involve highly complex issues, and often these issues are subject to substantial uncertainties. Accordingly, our potential liability with respect to a large portion of such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Management, with the assistance of legal counsel, periodically reviews the status of each significant matter and assesses potential financial exposure. We recognize provisions for claims or pending litigation when it determines that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. If management's estimates prove incorrect, current reserves could be inadequate and we could incur a charge to earnings which could have a material adverse effect on our results of operations, financial condition, and cash flows.

For a discussion of legal proceedings in which we are involved, see Note 20 and Note 22 to our interim condensed consolidated financial statements included in this report.

Item 1A. Risk Factors

Part I, Item 3.D. "Risk Factors" in our Annual Report on Form 20-F includes a discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report on Form 20-F. Except as presented below, there have been no material changes to our risk factors since those reported in Annual Report on Form 20-F.

The ongoing conflict between Russia and Ukraine may adversely affect our business, operating results, and financial condition.

The ongoing conflict between Russia and Ukraine could lead to disruption, instability, and volatility in global markets and industries that could negatively impact our business, operating results, and financial condition. In response to the crisis, we have taken several steps, including suspending new Premium account sign-ups in Russia in March 2022 and fully suspending our service in Russia as of April 11, 2022. While the suspension of our operations in Russia did not have a material impact on our operating results, the current conflict between Russia and Ukraine may have the effect of heightening many other risks, including, but not limited to, adverse effects on macroeconomic conditions, including inflation and business and consumer spending, and disruptions to our global technology infrastructure, including through cyberattack, ransom attack, or cyber-intrusion, all of which could have a material adverse effect to our business, operating results and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity

Share repurchase activity during the three months ended March 31, 2022 was as follows:

Period	Total Number of Shares Purchased		Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2022 - January 15, 2022	11,040		$ 222.70		11,040	$ 895,551,413
January 16, 2022 - January 31, 2022	1,198,000	(2)	$ —	(3)	—	$ 895,551,413
February 1, 2022 - February 28, 2022	—		$ —		—	$ 895,551,413
March 1, 2022 - March 31, 2022	—		$ —		—	$ 895,551,413
Total	**1,209,040**		**$ 222.70**		**11,040**	**$ 895,551,413**

(1) This column includes all the shares repurchased as a part of the repurchase program announced on August 20, 2021. See Note 15 to our interim condensed consolidated financial statements included in this report for additional details. As of March 31, 2022, we had repurchased a total of approximately $104 million under the share repurchase program.

(2) On January 27, 2022, the Company issued ordinary shares to our Netherlands subsidiary at par value and subsequently repurchased those shares at the same price. These shares are held in treasury in order to facilitate the fulfillment of option exercises and RSU releases under the Company's stock option and RSU plans.

(3) Price paid per share is equal to the USD equivalent of par value, or $0.000696 per share, as of the date of purchase.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Spotify Technology S.A.

Date: April 27, 2022

By: /s/ Paul Vogel
Name: Paul Vogel
Title: Chief Financial Officer