



# ANNUAL REPORT 2014



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## ICONS by category

### DRIVE

-  CAR
-  MOTORCYCLE
-  CAMPER & CARAVAN
-  TRUCK

### SPORT

-  RUNNING
-  CYCLING
-  SWIMMING
-  GOLF

### PRODUCT-RELATED

-  CONNECTED CAR
-  DIGITAL MAP
-  MULTINET-R
-  REAL-TIME TRAFFIC INFORMATION
-  NAVKIT NAVIGATION ENGINE
-  NAVCLOUD
-  CLOUD-BASED PRODUCTS
-  WEBFLEET
-  TELEMATICS APP CENTER
-  FLEET

### FINANCE & STRATEGY

-  ACCOUNTING POLICIES
-  SIGNIFICANT ESTIMATES
-  OUTLOOK
-  STRATEGY

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## FORWARD-LOOKING STATEMENTS/IMPORTANT NOTICE

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of TomTom NV (the company) and certain of the plans and objectives of TomTom and its subsidiaries (together with the company referred to as 'the group') with respect to these items. In particular the words 'expect', 'anticipate', 'estimate', 'may', 'should', 'would', 'believe' and similar expressions are intended to identify forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Actual results may differ materially from those expressed in these forward-looking statements, and you should not place undue reliance on them. We have based these forward-looking statements on our current expectations and projections about future events, including numerous assumptions regarding our present and future business strategies, operations and the environment in which we will operate in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of customer spending in major economies, changes in consumer tastes and preferences, changes in law, the performance of the financial markets, the levels of marketing and promotional expenditures by the group and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular changes in the USD and GBP versus the euro can materially affect results), changes in tax rates, future business combinations, acquisitions or disposals, the rate of technological changes, political and military developments in countries where the company operates and the risk of a downturn in the market.

Statements regarding market share, including the company's competitive position, contained in this document are based on outside sources such as specialised research institutes, industry and dealer panels in combination with management estimates. Where full year information regarding 2014 is not yet available to the company, these statements may also be based on estimates and projections prepared by outside sources or management. Market shares are based on sales in units unless otherwise stated. The forward-looking statements contained refer only to the date in which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this annual report.

## **BUSINESS RISKS**

TomTom can be adversely affected by a variety of business risks and economic developments. A structured risk management process helps management to better understand how risks might impact the company and to take appropriate risk mitigation initiatives. We update our business risk profile every year in order to manage our most important risks.

Below is an overview of our key business risks. The sequence of risks below does not reflect an order of importance, vulnerability or materiality. We believe that the careful management of all of these risks is important and that singling out particular risks could disrupt the balance of our risk management programme.

### **Approach to risk management**

Senior management together agree on the risk management priorities for the group. A single owner is assigned responsibility for each risk, which helps ensure clear accountability for the mitigating actions. The Business Assurance department facilitates the annual assessment of business risks to achieve an appropriate level of objectivity in our assessment of risks. The business risk profile is taken into account when establishing our strategy, annual business plans and budgets.

### **Group risk profile**

Below is an overview of the risks that we believe are most relevant to the achievement of our strategy. This overview is not exhaustive and should be considered in connection with forward-looking statements. There may be risks not yet known to us or which are currently not deemed to be material, which could later turn out to have a significant impact on our business and could have a material adverse effect on TomTom's financial condition, results of operations and liquidity.

### **Strategic risks**

#### **Competitive landscape**

We operate in a highly dynamic and competitive industry characterised by convergence of technologies, consolidation of competitors, as well as new and disruptive technologies and innovations. Failure to adapt our organisation to industry trends or otherwise remain competitive could have a material adverse effect on our business and TomTom's financial condition, results of operations and liquidity.

Many of our current competitors are large, well-known organisations with greater financial, technical and human resources than ours. They may have greater ability to fund product research and development and capitalise on potential market opportunities. New competitors interested in the same markets and products may also emerge. Industry consolidation may also result in increased competition.

We have entered into a number of strategic partnerships and joint ventures to bring competitive product and service offerings to market. If any of our strategic partners fail to perform as planned or if we fail to find suitable partners for our business activities, we may be unable to bring our products and services to the market and maintain a competitive market position.

### **Global economics**

The majority of our sales are generated in Europe which makes us vulnerable to the continued concerns about the macro-economic environment across the region. The US is also an important market for us and deterioration in consumer demand in this region would have a negative impact on our financial results.

The majority of our purchases are made in USD. Any devaluation of the euro against the USD would therefore have a negative impact on our profitability. We use foreign exchange contracts to mitigate the risks, although these are short term in nature and do not cover all our open exposures.

The impact of global economic conditions on consumer demand could impair our ability to generate sufficient cash flow to support our operational and investment plans. These or other unforeseen macro-economic conditions may render us unable to implement our strategic agenda as planned and consequently could have a material adverse effect on TomTom's financial condition, results of operations and liquidity.

### **Geographical sustainability**

The largest portion of our revenue is generated in Europe and we view maintaining market share in Europe as vital to our commercial success. The US is also an important market for us in which we aim to maintain market share.

Our aspirations to grow in high growth markets such as the BRICS countries will expose us to additional political, legal, social and economic risks. We cannot be certain that our products and services will meet consumer acceptance in these markets and we may be unable to realise our growth objectives in these emerging markets. If we are unable to realise our growth plans in emerging markets our anticipated revenues and profits could be adversely affected.

### **Automotive**

The automotive market is continuously evolving with respect to navigation. Although the navigation experience for our end users is similar, whether the navigation system is built in the dash or provided on a PND, the dynamics of supplying to the automotive industry are different from those for delivering mass-market consumer electronics. Our easy-to-integrate Navigation Data Standard (NDS)-based Connected Navigation System will aid in addressing the Automotive opportunity.

There could be additional operational and technical challenges in growing our automotive business and maintaining profitability over the longer term in such a rapidly evolving environment. Furthermore, new map and navigation providers may choose to enter the automotive market, which could significantly increase the level of competition we face. If we are unsuccessful in maintaining and growing a profitable automotive business, our financial condition, results of operations and liquidity may be materially adversely affected.

### **Brand**

All our products and services are brought to market under one brand. This leads to brand concentration risk. Brand value can be severely damaged, even by isolated incidents affecting the reputation of our business or our products and services. Some of these incidents may be beyond our ability to control and can erode consumer confidence in our products or services.

Factors that negatively affect our reputation or brand image, such as adverse consumer publicity, inferior product quality or poor service, could have a material adverse effect on our financial condition and results of operations.

### **Innovation and engineering capabilities**

Our markets are characterised by rapid technological change, which challenges us to deliver highly competitive products and services on an ongoing basis. We will continue to focus on our product management capabilities and producing high quality innovative solutions, but there can be no guarantee that our products and services will compete successfully against current or new market entrants or competing technologies.

Our success depends on our ability to rapidly develop, market and commercialise new and upgraded products and services. The timing of our new product and service releases, our ability to accurately forecast market demand, our product mix relative to that of our competitors and our ability to understand and meet changing consumer preferences are vital to this effort. Should we be unable to meet these challenges it may have a material adverse effect on our financial condition and results of operations.

### **Digital mapping**

The competitive environment requires continuous investment in new technology for creating and updating map databases. Maps need to be continuously updated for changes in the environment and we are continuously adding new geographies and attributes to our map database to enable us to meet the needs of existing customers, bring out new products and expand into new markets.

If we are unable to invest sufficiently to compete with other global map providers in terms of both the quality and coverage and to modernise our map delivery platforms, our business, our financial condition, results of operations and liquidity may be materially adversely affected.

### **Dependency on GPS satellites**

Our navigation products and services depend on GPS satellite transmissions that provide position data to our customers. GPS satellites are funded and maintained by the US government. We have no control over their maintenance, support or repair. The availability and free use of GPS signals to the level of accuracy required for commercial use remains at the sole discretion of the US government.

GPS signals are carried on radio frequency bands. Any reallocation of, or interference with these bands could impair the functionality of our products. Our Navigation products use positioning chips which are compatible with GLONASS (Russian Satellite System). Chinese and European systems are in various stages of development; these systems again remain under the control of sponsoring governments and agencies.

## **Operational risks**

### **Human resources**

In order to be a market leader in our industry we need to have the most talented people working effectively together. The success of our business depends on attracting, integrating and retaining highly skilled personnel in all business units and development centres.

We aim to employ highly talented people in our organisation. We have a rigorous recruitment process so that we can have high levels of confidence in the people we hire. To retain talent within our

organisation we monitor the organisational health of the company and have programmes in place to retain and keep key employees engaged. However, if we are unable to attract and retain the highly talented people we require, our ability to operate our business successfully could be significantly impaired.

### **Supply chain**

We depend on a limited number of third parties and, in certain instances, on sole suppliers, for map content, component supply, connectivity and manufacturing. Any disruption to or termination of our relationships with third-party manufacturers, suppliers or distributors, or any reduction in their ability to supply our needs would adversely affect our business.

Our capacity to deliver innovative products to the market means that we will continue to be dependent to some extent on components that are only available from specific leading technology organisations. Single-source component risk will remain a part of our business model for the foreseeable future. If we are unable to source any critical components, particularly critical single-source components, our business could be significantly impaired and our financial condition, results of operations and liquidity could be materially adversely affected.

### **Product Quality**

Our industry is characterised by frequent technological advances. In order to remain competitive, we need to continuously innovate to introduce new and upgraded products and services. Difficulties may be experienced that delay the development, introduction or market acceptance of our new or enhanced products.

Furthermore, we develop complex hardware and software products which may experience material defects, errors or failure. We have internal quality control standards and procedures to mitigate these risks. However, should any of our products fail to operate as intended or otherwise experience quality problems, our reputation and brand value may suffer and we may be exposed to increased operating costs and the possibility of significant warranty and consumer product liability, which could adversely affect our financial condition, results of operations and liquidity.

### **Performance of real-time services**

We provide a variety of e-commerce and service portals for our products and services on a 24/7 basis, these include: fleet management services, live traffic information and sales via our website. To provide these services to our customers we rely on our own, as well as outsourced, information technology, telecommunications and other infrastructure systems.

A significant disruption to the availability of these systems could cause interruptions in our service to customers that may cause reputational damage for us and could trigger contractual penalties which could have a material adverse effect on our financial condition and results of operations.

### **Disaster recovery planning**

Unforeseen business disruptions could affect our service to customers and cause loss of, or delays in TomTom's critical business systems, our research and development work and/or product shipments. Any permanent or temporary loss of these systems would result in reputational damage, loss of revenue and liabilities to our clients. In the case of a catastrophic disaster our company's success rests on our ability to restore our critical data and rebuild our IT business systems.