



ANNUAL REPORT 2014

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

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.

SECTION 2 RESULTS OF THE YEAR

This section presents the notes related to items in the income statement (except for financial income and expenses) and disclosure on operating segments. If applicable, relevant notes on balance sheet items related to the respective items in the income statement are presented in this section. A detailed description of the results for the year is provided in the Business and financial review by business unit and Group financial review sections in the Management Board report.

4. Segment reporting and revenue

The operating segments are identified and reported on the basis of internal reports about components of the group that are regularly reviewed by the Management Board to assess the performance of the segments.

As of 1 January 2014, the internal management reporting, which is used as the basis for segment reporting, was changed. The hardware component of sales to automotive customers is reported in Consumer instead of in Automotive in order to clearly identify automotive revenue which comes from content, software and services. Additionally, due to client portfolio redistribution, a minor amount of revenue was moved from Licensing to Automotive. Accordingly, the reported segment information and its comparative figures have been adjusted to reflect these changes, and are not necessarily consistent with the numbers reported previously.

The group's internal management reporting is structured primarily on the basis of the market segments in which the four operating segments - Consumer, Automotive, Licensing and Telematics - operate. Consumer generates revenue mainly from the sale of PNDs, sport watches, maps and related navigation products and services. The Automotive business unit develops and sells navigation software components, services and content, such as maps, traffic and navigation software, to car manufacturers and Tier 1 suppliers worldwide. Licensing generates revenue by licensing digital maps, traffic, navigation software and other content to a wide range of customers, and Telematics provides fleet management services and related solutions to fleet owners including sale and/or rental of hardware products associated with the services.

Management assesses the performance of segments based on the measures of revenue and earnings before interest and taxes (EBIT), whereby the EBIT measure includes allocations of expenses from supporting functions within the group. Such allocations have been determined based on relevant measures that reflect the level of benefits of these functions to each of the operating segments. As the four operating segments serve only external customers, there is no inter-segment revenue. The effects of non-recurring items such as impairment are excluded from management's measurement basis. Interest income and expenses and tax are not allocated to the segments. There is no measure of segment (non-current) assets and/or liabilities provided to the Management Board.

(€ in thousands)	2014	2013[1]
Revenue		
Consumer	619,099	651,845
Automotive	109,409	110,932
Licensing	111,575	116,047
Telematics	110,209	84,630
TOTAL	**950,292**	**963,454**

[1] The reported 2013 Revenue for Consumer, Automotive and Licensing was respectively € 567.0 million, €192.4 million and €119.4 million.

The EBIT of each segment is as follows:

(€ in thousands)	2014	2013[1]
EBIT		
Consumer	36,168	33,223
Automotive	– 28,685	– 11,755
Licensing	– 11,360	– 10,910
Telematics	33,801	26,003
TOTAL	**29,924**	**36,561**

[1] The reported 2013 EBIT for Consumer, Automotive, Licensing and Telematics was respectively €25.7 million, -€0.6 million, -€13.3 million and € 24.8 million.

The EBITDA of each segment is as follows:

(€ in thousands)	2014	2013[1]
EBITDA		
Consumer	55,349	56,675
Automotive	20,093	37,864
Licensing	30,091	31,098
Telematics	39,102	28,343
TOTAL	**144,635**	**153,980**

[1] The reported 2013 EBITDA for Consumer, Automotive, Licensing and Telematics was respectively €50.6 million, €41.6 million, €34.3 million and € 27.1 million.

A reconciliation of the segment performance measure (EBIT) to the group's result before tax is provided below.

(€ in thousands)	2014	2013
Total Segment EBIT	**29,924**	**36,561**
Unallocated expenses	−8,810	−11,015
Interest result	−3,145	−2,945
Other finance result	−3,720	−1,619
Result of associates	374	3,091
RESULT BEFORE TAX	**14,623**	**24,073**

A breakdown of the external revenue to types of products and services and to geographical areas is as follows:

(€ in thousands)	2014	2013
External revenue - by products and services		
Sale of goods[1]	578,086	592,834
Rendering of content and services	188,600	190,072
Royalty revenue	183,606	180,548
TOTAL	**950,292**	**963,454**

[1] Includes navigation software, map and traffic components sold initially in bundle with the Automotive hardware.

(€ in thousands)	2014	2013
External revenue - by geographical areas		
Europe	718,767	710,101
North America	163,461	177,725
Rest of world	68,064	75,628
TOTAL	**950,292**	**963,454**

The geographical split of the group's revenue from sale of goods and content and services is based on the location of the customers, while the split for royalty revenue is based on the coverage of the group's geographical map data and other contents.

Total revenue generated in the Netherlands during 2014 amounted to €74 million (2013: €60 million).

The group has no significant concentration of sales from a particular individual external customer.

The non-current assets within the group include a significant portion of the carrying value of the step up resulting from the Tele Atlas acquisition in 2008. As this step up is not geographically allocated to the respective regions for internal management reporting, it is believed that disclosure of geographic allocation would be highly judgemental and would not give a true representation of geographical spread of the group's assets.

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for products and/or services delivered in the normal course of business. Revenue is reduced for estimated probable customer returns, rebates and other similar allowances whenever applicable.

The revenue recognition policy for each type of revenue or their combination is presented below:

Sale of goods

Revenue from the sale of goods is only recognised when the risks and rewards of ownership of goods are transferred to the customers, which include distributors, retailers, end users and OEMs. The risks and rewards of ownership are generally transferred at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. In cases where contractual acceptance is not required, revenue is recognised when management has established that all aforementioned conditions for revenue recognition have been met.

Royalty revenue

Royalty revenue is generated through licensing of geographic and/or other traffic-/location-based content to customers. Revenue is recognised on an accrual basis based on the contractual terms and substance of the relevant arrangements with the customers.

Sale of services

Services revenue is generated from the sale of traffic and map update services, content sales, connected navigation and fleet management services to commercial fleets. The revenue relating to the service element is recognised over the agreed or estimated service period on a straight-line basis. In arrangements where devices are rented out to the customer in Telematics, the rental revenue is included in the revenue from subscriptions.

Multiple-element arrangements

The group's product and services offerings include arrangements that require the group to deliver equipment (e.g. navigation hardware) and/or a number of services (e.g. map update services) under one agreement, or under a series of agreements that are commercially linked (referred to as 'multiple-element arrangements'). In such multiple-element arrangements, the consideration received is allocated to each separately identifiable element, based on the estimated relative fair values of each identifiable element. To the extent that there is a discount on the arrangement, the discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements and the substance of the transaction.

The amount of revenue allocated to the hardware element is recognised in line with the accounting policy for the sale of goods as described above. The revenue relating to the service element is recognised over the agreed or estimated service period on a straight-line basis, which varies on average from 3 months to 48 months (for lifetime services).

Significant estimates

The estimated sales return deduction is based upon historical data on the return rates and information on the inventory levels in the distribution channel. For sales incentives including channel- and end user rebates, the reduction in revenue is based on the group's historical experience, taking into account future expectations on rebate payments. If there is excess stock at retailers when a price reduction becomes effective, the group will compensate its customers on the price difference for their existing stock, provided certain criteria are met. To reflect the costs related to known price reductions in the income statement, an accrual is created against revenue based on an estimate of the inventory levels in the channel and future price reductions.

In the absence of a stand-alone selling price, the fair value of each element under a multiple-element arrangement is estimated using other methods allowed under IFRS, such as the cost plus reasonable margin or the residual method or a combination thereof. In making such estimates, management make use of judgement and assumptions to arrive at an outcome that best reflects a transaction's substance. Total deferred revenue balance relating to the elements deferred under such multiple-element arrangements as at 31 December 2014 amounted to €85 million (31 December 2013: €63 million).

5. Cost of sales

The group's cost of sales consists of material costs for goods sold to customers, royalty and license expenses and fulfilment costs incurred on inventory sold during the year as well as amortisation of certain technologies specifically developed/used for particular customers.

6. Personnel expenses

Included in the operating expenses are, amongst others, the following items:

(€ in thousands)	2014	2013
Salaries	155,771	149,200
Social security costs	26,478	28,572
Pensions	7,758	7,831
Share-based compensation	8,742	7,980
Other[1]	49,596	48,011
PERSONNEL EXPENSES	**248,345**	**241,594**

[1] Other personnel expenses include costs of secondary benefits such as health insurance, vehicle lease costs, sales commissions and bonuses.

The average number of employees in 2014 was 3,888 (2013: 3,491) spread across the following functional areas:

	2014	2013
Research and development	2,602	2,265
Marketing	97	102
Sales, general and administrative	1,189	1,124
TOTAL	**3,888**	**3,491**

At 31 December 2014, the group had 4,172 (2013: 3,671) employees. During 2014, 2,797 of employees worked outside the Netherlands (2013: 2,351).

Pensions

The group's pension plans primarily comprise of defined contribution plans, limiting the employer's legal obligation to the amount it agrees to contribute during the period of employment and a defined benefit plan for a German subsidiary. This defined benefit plan is unfunded and has no plan asset. Management is of the opinion that the plan has limited risks to the group as it was frozen in 2007. In the extraordinary event that the group is unable to meet its obligations, the participants will receive (partial) payments from a state-owned pension protection fund.

The total pension costs of €7.8 million consist of the costs of the defined contribution plans of €7.5 million (2013: €7.6 million) and of the German-defined benefit plan of €0.3 million (2013: €0.2 million).

The movement of the German-defined benefit obligation is presented below:

(€ in thousands)	2014	2013
PRESENT VALUE OF OBLIGATION AS AT 1 JANUARY	6,763	6,572
Current service cost	36	24