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 5 FINANCING, FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

This section includes notes related to financing items such as equity and borrowings as well as financial risk management and financial instruments. Related items such as earnings per share calculation as well as financial income and expenses, are included in this section.

24. Shareholder's equity

	2014		2013	
	No.	**(€ in thousands)**	**No.**	**(€ in thousands)**
AUTHORISED:				
Ordinary shares	600,000,000	120,000	600,000,000	120,000
Preferred shares	300,000,000	60,000	300,000,000	60,000
	900,000,000	**180,000**	**900,000,000**	**180,000**
ISSUED AND FULLY PAID:				
Ordinary shares	223,569,822	44,714	222,176,212	44,435

In 2014, 1,393,610 shares were issued following the exercise of stock options and the restricted stock units by employees (2013: 281,200).

Reserves are freely distributable except for €172.9 million of legal reserves (2013: €130.6 million). Note F. Other reserves in the company financial statements provides an overview of the non-distributable reserves.

All shares have a par value of €0.20 per share (2013: €0.20 per share). Further information on the rights, restrictions and other conditions attached to ordinary and preferred shares is provided in the Corporate Governance section in the annual report.

The Corporate Governance section of this annual report provides a detailed description regarding the use of Foundation Continuity TomTom as a protective measure.

Management is of the opinion that the call option as described in the Corporate Governance section does not represent a significant value as meant in IAS 1, paragraph 31, due to the fact that the likelihood that the call option will be exercised is remote. In the remote event that the call option is exercised, the preferred shares that are issued are intended to be cancelled shortly after issuance (within 1 year period). The option is therefore not accounted for in the annual accounts, nor is any additional information as meant in IAS 32 and 39 provided.

Accounting policy

Share capital

Ordinary shares are classified as share capital.

Share premium

The share premium represents the amount by which the fair value of the consideration received exceeds the nominal value of shares issued. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

25. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

(€ in thousands)	**2014**	**2013**
Earnings		
Net result attributed to equity holders	22,549	19,539
Adjusted net result		
Net result attributed to equity holders	22,549	19,539
Amortisation of acquired intangibles	50,332	53,895
Acquisition-related gain	0	–2,472
Tax effect of adjustments	–12,583	–12,985
ADJUSTED NET RESULT	**60,298**	57,977

	2014	2013
NUMBER OF SHARES		
Weighted average number of ordinary shares for basic earnings per share	222,689,197	221,950,450
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES		
Share options and restricted stock	2,432,734	1,356,832
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE	**225,121,931**	**223,307,282**
EARNINGS PER SHARE (in €)		
Basic	0.10	0.09
Diluted	0.10	0.09
ADJUSTED EARNINGS PER SHARE (in €)[1]		
Basic	0.27	0.26
Diluted	0.27	0.26

[1] Adjusted earnings per share is not an IFRS performance measure and hence is not comparable across companies.

Accounting policy

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares arising from stock options and other equity-settled share-based plans. For the stock options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares), based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued, assuming the exercise of the stock options. When the effect of the options and other equity-settled share-based plans is anti-dilutive, the number is excluded from the calculation of diluted earnings.

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing the adjusted earnings by the weighted average number of ordinary and diluted shares outstanding during the year.

26. Non-controlling interests (minority interests)

The following table presents the interest held by third parties in the group's consolidated subsidiaries:

Subsidiary	Country	% of non controling interest	
		31 Dec 2014	31 Dec 2013
TomTom Africa (Pty) Ltd.	South Africa	24%	24%
TomTom Navigation Taiwan Co., Ltd.	Rep. of China	30%	30%
Coordina Chile Soluciones de Localizacion Ltda.	Chile	20%	20%
Movilogistica S.A. de CV	Mexico	30%	30%

The movements in the non-controlling interests is presented below.

(€ in thousands)	2014	2013
BALANCE AS AT 1 JANUARY	**2,115**	**2,642**
Non-controlling interests in the net result of subsidiaries	106	524
Dividends paid	–177	–377
Change in share of non-controlling interests	0	18
Currency translation differences	29	–692
BALANCE AS AT 31 DECEMBER	**2,073**	**2,115**

The main part of the balance of the non-controlling interest relates to TomTom Africa (Pty) Ltd. There are no material cash balances or assets held by any of the abovementioned subsidiaries.

27. Borrowings

(€ in thousands)	2014	2013
Non-current	48,925	99,348
Current	0	74,089
TOTAL	**48,925**	**173,437**

On 22 December 2014, the group signed a new credit facility agreement (the 'new facility'), replacing the previous facility agreement. The agreement is effective up to 31 March 2018 and includes two additional one-year extension options.

The new facility comprises of a revolving credit facility for an amount of €250 million, of which €50 million was drawn at the end of December 2014. Netted with the transaction costs of €1.1 million, the carrying amount of the group's outstanding borrowings at 31 December 2014 was €48.9 million. The interest is in line with market conditions and is based on Euribor plus a margin that depends on certain leverage covenants. The average interest paid on borrowings in 2014 was 1.3% (2013: 1.2%).

At 31 December 2014 the outstanding borrowings are presented as a non-current liability, as management expects to maintain at least a similar level of utilisation in the coming twelve months.

As the contractual interest rate is based on market interest rates plus a certain margin, and the fact that there has been no significant change to the group's credit rating, the fair value of the borrowings at the end of 2014 and 2013 is estimated to approximate their carrying value.

Accounting policy

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently, amounts are stated at amortised cost with the difference being recognised in the income statement over the period of the borrowings using the effective interest rate method.

28. Financial risk management

Financial risk factors

The group's activities result in exposure to a variety of financial risks including credit, foreign currencies, liquidity and interest rate risk. Management policies have been established to identify, analyse and monitor these risks, and to set appropriate risk limits and controls. Financial risk management is carried out in accordance with our Corporate Treasury Policy. The written principles and policies are reviewed periodically to reflect changes in market conditions, the activities of the business, and laws and regulations affecting the group's business.

Credit

Credit risk arises primarily from cash and cash equivalents held at financial institutions, and, to a certain extent, from trade receivables relating to wholesale customers.

Cash balances are held with counterparties that have a credit risk rating of at least BBB-, as rated by an acknowledged rating agency. Moreover, to avoid significant concentration of exposure to particular financial institutions, it has been ensured that transactions and businesses are properly spread among different counterparties.

The group's exposure to wholesale customers is managed through establishing proper credit limits and continuous credit risk assessments for each individual customer.

Procedures include aligning credit and trading terms and conditions with an assessment of the individual characteristics and risk profile of each customer. This assessment is made based on past experiences and independent ratings from external rating agencies whenever available.

As at 31 December 2014, total bad debt provision represented approximately 0.4% of group revenue (2013: 0.3%).

Foreign currencies

The group operates internationally and conducts business in multiple currencies. Revenues are earned in euro, pound sterling (GBP), the US dollar (USD) and other currencies, and do not necessarily match cost of sales and other costs which are largely in euro and the US dollar and to a certain extent in other currencies. Foreign currency exposures on commercial transactions relate mainly to estimated purchases and sales transactions that are denominated in currencies other than reporting currency - the euro (€).

The group manages foreign currency transaction risk through options and forward contracts to cover forecasted net exposures. All such transactions are carried out within the guidelines set by Corporate Treasury Policy, which is reviewed annually by the Audit Committee.

A 2.5% strengthening/weakening of the euro as at 31 December 2014 against the currencies listed below would have increased (decreased) profit or loss by the amount shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis as in 2013.

		2014		2013
(€)	Strengthen	Weaken	Strenghten	Weaken
GBP	248,885	–236,708	–327,148	311,664
USD	–823,283	783,392	–228,989	278,258

Liquidity and loan covenant

The approach to managing liquidity is to ensure that sufficient funds are available to meet financial obligations when they fall due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

To ensure there is sufficient cash to meet expected operational expenses, including the servicing of financial obligations, actual and future cash flow requirements are regularly monitored, taking into account the maturity profiles of financial assets and liabilities and the rolling forecast of the group's liquidity reserve, which comprises cash and cash equivalents and an undrawn credit facility of €200 million.

Under the covenants of the facility, the group is required to meet certain performance indicators with regard to its interest cover (4.0) and leverage ratio (3.0), which are tested twice a year. Interest cover is defined as the ratio of the last twelve months (LTM) EBITDA to LTM interest expense for the relevant test period. The leverage ratio is defined as the ratio of total consolidated net debt as at the testing date to the consolidated LTM EBITDA in respect of the relevant period ending on that date. In case of a breach of these covenants, the banks are contractually entitled to request early repayment of the outstanding amount. On 31 December 2014, the group complied with the loan covenants and, based on the group's plan for 2015, management expects to be able to comply with the loan covenants during 2015.

The outstanding borrowings of €50 million from the credit facility has a one-month maturity period from the date of draw down but can continuously be rolled-over up to the end date of the facility agreement at management's discretion. Assuming the amount utilised remains the same until the end of the agreement and the level of market interest as well as the required performance indicators remain constant based on the situation as at 31 December 2014, the annual interest due up to 31 March 2018 would be €0.4 million.

Interest rates

Interest rate risk arises primarily from the existing long-term borrowings. These borrowings have a floating interest coupon based on Euribor plus a spread that depends on leverage levels. Interest rate risk is hedged with appropriate hedging instruments whenever deemed necessary in accordance with the Corporate Treasury Policy.

Based on the expectation of interest rate movements in the coming period and the acceptability of potential exposure, the current policy is not to hedge the interest rate of current borrowings. Accordingly, changes in Euribor may have an impact on the group's results for the coming year.

Market-related interest income is received on the cash balances. Our intention is to prioritise capital preservation and when possible we invest our surplus cash using approved investment instruments, such as bank deposits and money market fund investments. All transactions and counterparty risk limits are governed by Corporate Treasury Policy.

Capital risk management

The group's financing policy aims to maintain a capital structure that enables the group to achieve its strategic objectives and daily operational needs, and to safeguard the group's ability to continue as a going concern.

In order to maintain or adjust the capital structure, the group may issue new shares, adjust its dividend policy, return capital to shareholders or sell assets to reduce debt, taking into account relevant interest cover and leverage covenants of external borrowings as disclosed above.

As at 31 December 2014, the group had a net cash position of €103 million (31 December 2013: €83 million).

Further quantitative disclosures are included throughout these consolidated financial statements.

29. Financial instruments

The following table presents the group's financial instruments according to the categories as defined in IAS 39:

(€ in thousands)	Loans and receivables	Assets/liabilities at fair value through profit or loss	Other financial assets/ liabilities at amortised cost	Total
AS AT 31 DECEMBER 2014				
ASSETS				
Other financial assets	0	1,186	0	1,186
Trade receivables	133,266	0	0	133,266
Cash and cash equivalents	152,949	0	0	152,949
TOTAL	**286,215**	**1,186**	**0**	**287,401**
LIABILITIES				
Trade payables	0	0	88,218	88,218
Other financial liabilities	0	23	0	23
Borrowings	0	0	48,925	48,925
TOTAL	**0**	**23**	**137,143**	**137,166**
AS AT 31 DECEMBER 2013				
ASSETS				
Other financial assets	0	376	0	376
Trade receivables	115,429	0	0	115,429
Cash and cash equivalents	257,785	0	0	257,785
TOTAL	**373,214**	**376**	**0**	**373,590**
LIABILITIES				
Trade payables	0	0	82,337	82,337
Other financial liabilities	0	236	0	236
Borrowings	0	0	173,437	173,437
TOTAL	**0**	**236**	**255,774**	**256,010**

Accounting policy

Financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Derivatives are categorised at fair value through profit or loss unless they are designated as hedges. Derivatives are recorded as financial assets when their fair value is a positive number; otherwise the derivative is classified as a financial liability. All derivative financial instruments are classified as current or non-current assets or liabilities based on their maturity dates and are accounted for at trade date.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has substantially transferred all risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost (if the effect of time value is material) using the effective interest method, less any impairment. The group's financial assets classified in the category 'Loans and receivables' comprise 'Trade receivables' and 'Cash and cash equivalents' in the balance sheet (note 18. Trade receivables and note 21. Cash and cash equivalents).

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Fair value estimation

The group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy should have the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (for example, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

The fair value of financial assets/liabilities carried at fair value through profit or loss and the derivatives in a hedging relationship is determined using valuation techniques that maximise the use of observable market data where it is available and which rely as little as possible on entity-specific estimates. In accordance with the fair value hierarchy established by IFRS 7, these types of inputs classify as level 2 inputs.

30. Financial income and expenses

Financial income and expenses include the following items:

(€ in thousands)	2014	2013
Interest income	1,161	1,114
Interest expense	–4,306	–4,059
INTEREST RESULT	**–3,145**	**–2,945**
Other financial result	124	714
Foreign exchange result	–3,844	–2,333
OTHER FINANCIAL RESULT	**–3,720**	**–1,619**

The interest expense relates mainly to interest paid on borrowings and amortised transaction costs (see note 27. Borrowings).

The foreign exchange result includes results related to hedging contracts and balance sheet item revaluations. Hedging contracts are entered into to protect the group from adverse exchange rate fluctuations that may result from USD and GBP exposures.

Accounting policy

Interest income and expense are recognised using the effective interest method.

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