BRILL

ANNUAL REPORT 2017

KONINKLIJKE BRILL NV

Supervisory Board

Members
Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

Managing Director

Herman A. Pabbruwe

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This annual report is available as PDF on brill.com under: About / Investor Relations relations

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Director's report on the year 2017

Introduction by the Managing Director

In 2017, Brill made good progress on its strategy. We expanded our market positions, increased market presence and completed our major investments. Succession planning was completed timely. Financially, 2017 was a year with mixed results. We showed healthy revenue growth, but the profit level was disappointing due to a variety of one – off effects.

We started the year with our first major acquisition in the German speaking countries; Schöningh & Fink. In August, our Asian presence was expanded by opening a representative office in Beijing to support our sales activities in China. By acquiring Sense Publishers as of 1 July, we entered a new market segment: Educational Sciences. With this acquisition we can further strengthen our presence in the field of Social Sciences.

Moreover, as part of our 'build on' strategy in the German market, we acquired mentis Verlag, effective January 1st 2018. Mentis is a small but well-known German publisher in the field of Philosophy. The program will be added to Schöningh & Fink. During the year we made good progress on the integration of Schöningh & Fink and Sense Publishing, which both contributed to 2017 profits.

Our online book sales grew with double digits in our core markets, most notably in the Americas. Our underlying global print book business was resilient, especially thanks to growth in Asia. In the US, a key print books client over-ordered for a sustained period in 2016 and 2017 due to an EDI (electronic ordering) issue, leading to high returns in 2017. The issue was uncovered in 2017 and consequently an amount of EUR 0.2 million was credited in 2017 relating to 2016. Also, the relatively fast migration in the US from print to eBooks, led to a relatively stronger decline in print book sales in that market.

Underlying we could largely maintain the overall organic growth pace of last year. In 2017, sales deals over EUR 0.1 million came in mostly in the second half of the year, rather than spread out during the year as in 2016. A positive fact is that most of these deals have renewal potential for the next few years.

The two strategic technology projects R-Suite, an editorial workflow program, and the replacement and integration of our online platforms Brill.com and Brillonline.com progressed despite a few set-backs and delays. Once fully implemented in 2018, we expect to vastly improve our on-line service and create significant value out of these investments through efficiencies in the production and e-business processes in the years to come.

EBITDA ended at EUR 4.2 million (2016: EUR 4.5 million). During 2017, we faced non-recurring items related to returns, royalty accruals and audit and acquisition related expenses. At year end we saw additional adverse developments. Costs of Goods Sold was impacted by higher product support costs towards the end of the year. Also, CoGS were impacted by changes in accounting estimates. We adjusted the pattern of amortization of our capitalized content, in line with market driven changes in the timing of benefits expected from these assets. Moreover, an increased materiality level for capitalizing content development costs added to CoGS. Both steps lead to more reasonable and balanced valuations. Going forward, we expect the growth of content amortization to abate due to significant cash savings in typesetting costs which started to materialize in 2017 thanks to our investments in content management systems. Personnel costs increased reflecting acquisitions as well as organic developments. Adjusting for the non-recurring items described above, we see positive underlying trends which help support our positive outlook for 2018 and beyond.

Despite significant capital investment, acquisition spending and lower EBITDA, year-end liquidity exceeded our expectations and amounted to EUR 3.8 million. This is the result of further improvements in working capital of EUR 0.6 million (2016: EUR 1.6 million). Excluding the effect of acquisitions, stock reduced further reflecting the integral use of Printing on Demand. Also, before acquisition effects, we saw lower receivables.

Given our cash position and the strong underlying indicators for our business we confidently propose a dividend of EUR 1.32, underlining our commitment to a stable or growing dividend. After having reviewed the capitalization and financial structure of the company, we decided to increase the leverage of the company and take bank credit. We wish to maintain access to financial resources for investments and fitting acquisitions, but our balance sheet will allow us to propose an extraordinary dividend of EUR 3.00.

Since 2015, the Management Team works on a coherent agenda, based on a strategic plan which is developed in active consultation with the Supervisory Board. The plan is primarily based on organic development and offers solid, attractive opportunities for sustainable value creation through three focus areas:

- Expand our market position
- Increase Marketing and Sales presence
- Invest in Operations

Following the scheduled handover of management in May 2018, the Management Board will consist of two statutory directors: Peter Coebergh as CEO and Olivier de Vlam as CFO and COO. Also, Jasmin Lange has been appointed Chief Publishing Officer. Together, this new Executive Committee remains committed to building on this chosen strategy. In 2018, we will focus on monetizing the investments made in 2017 and realizing the value embedded in these activities, but also on enhancing our publishing policy and Brill's internal organization.

In 2017 we further developed our policies on Corporate Sustainability. We are proud to have committed to the UN's Global Compact Agenda and will work hard to live up to its demands in the area of sustainable business management.

A vital element of who we are is our position as a listed company and the compliance with the applicable rules and regulations. However, we also strongly feel about our values and business principles which have been explicitly laid out in this report for the first time. Perhaps the leading concept is maintaining harmony between our patrons; Pallas Athena and Hermes. Striking a balance in serving both Scholarship and Commerce is key to the long-term success and long-term value creation for all stakeholders.

Brill is fortunate to have stakeholders who are actively involved and who contribute to our vibrant business outlook. We all care for this special publishing house which will celebrate its 335th anniversary in May 2018.

It has been an honor and privilege to serve this company for the last fourteen years.

Leiden, April 4, 2018

Herman A. Pabbruwe
Managing Director of Koninklijke Brill NV

KEY FIGURES

All amounts: x EUR 1,000

	2017	2016	2015	2014*	2013
Results					
Revenue	36,394	32,177	30,809	29,601	29,284
Gross profit	23,843	21,019	20,412	19,987	19,848
EBITDA [1]	4,156	4,496	3,794	3,680	4,504
Operating profit	3,315	3,712	3,015	2,675	3,478
Profit for the year	2,260	2,797	2,332	2,153	2,461
Adjusted Profit [2]	2,342	2,797	2,332	2,153	2,461
Free cash flow [3]	-43	2,329	3,201	822	2,634
Net cash flow from investment activities excluding Content	-3,996	-2,131	-962	-2,765	-1,185
Average invested capital [4]	22,008	20,973	21,224	21,001	20,505
Growth compared to previous year					
Revenue	13.1%	4.4%	4.1%	1.1%	6.4%
Gross profit	13.4%	3.0%	2.1%	0.7%	5.0%
EBITDA [1]	-7.6%	18.5%	3.1%	-18.3%	6.4%
Operating profit	-10. 7%	23.1%	12.7%	-23.1%	7.4%
Profit from continued operations	-19.2%	20.0%	8.3%	-12.5%	6.2%
Profitability					
Gross profit as % of revenue	65.5%	65.3%	66.3%	67.5%	67.8%
EBITDA as % of revenue	11.4%	14.0%	12.3%	12.4%	15.4%
Operating profit as % of revenue	9.1%	11.5%	9.8%	9.0%	11.9%
Profit for the year as % of revenue	6.2%	8.7%	7.6%	7.3%	8.4%
Revenue/average invested capital	1.7	1.5	1.4	1.4	1.4
NOPLAT as percentage of revenue	6.7%	8.5%	7.2%	6.7%	8.9%
ROIC	11.1%	13.0%	10.1%	9.3%	12.6%
Balance sheet ratios					
Shareholders' equity / total assets	56.0%	58.6%	58.1%	59.1%	61.4%
Current assets / current liabilities [5]	0.95	1.11	1.73	1.83	2.01
Personnel					
Average number of employees (FTE)	161	132	132	132	123
Revenue per employee	226	244	233	224	238
EBITDA per employee	26	34	29	28	37
Average personnel costs per employee (FTE)	67	71	68	63	65

* Restated figures, refer annual report 2015.

[1] EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization, the operating income before the amortization of intangible fixed assets and the depreciation of tangible fixed assets. See note 23
[2] Adjusted Profit is Profit adjusted for amortization of acquired intangible assets as of 2017
[3] Free Cash Flow = Net Cash Flow adjusted for cash flow from financing activities See note 23
[4] (Average) Invested Capital = (average of) fixed assets minus deferred tax liabilities related to acquired intangibles + working capital less cash and net tax receivables and financial instruments. See note 23.
[5] 2017 and 2016 impacted by reclass of content to fixed assets

Data per Share

In thousands of euros, based on weighted average number of outstanding shares

	2017	2016	2015	2014*	2013
Weighted average number of outstanding shares	1,874,444	1,874,444	1,874,444	1,874,444	1,874,444
Shareholders' equity per share	14.62	14.69	14.49	14.32	14.51
Increase in %	-0.5%	1.4%	1.2%	-1.4%	2.0%
EBITDA per share	2.22	2.40	2.02	1.96	2.40
Increase in %	-7.6%	18.8%	3.1%	-18.3%	6.2%
Earnings per share	1.21	1.49	1.24	1.15	1.31
Increase in %	-19.1%	20.2%	7.8%	-12.5%	-57.1%
Free cash flow per share	-0.02	1.24	1.71	0.44	1.40
Increase in %	-101.9%	-27.5%	289.3%	-68.6%	-53.0%
Dividend per share	1.32	1.32	1.24	1.15	1.12
Increase in %	0%	6.5%	7.8%	2.7%	3.7%
Pay-out ratio	109.1%	88.4%	100%	100%	85%
Extraordinary dividend per share	3.00				
Number of outstanding shares at year end	1,874,444	1,874,444	1,874,444	1,874,444	1,874,444
Highest share price during the year	37.36	28.00	27.95	25.83	22.90
Lowest share price during the year	27.29	20.95	22.70	21.95	19.25
Share price at year end	35.50	27.73	23.36	25.73	22.14

* Restated figures, refer annual report 2015.

Company Profile

History

When the then general manager Evert Jan Brill (1812-1871) bought the Leiden-based publisher Luchtmans in 1848 and re-named it under his own name, he continued the business started by Jordaan Luchtmans (1652-1708) in 1683. Facilitating the flow of information between authors and their readers remained the core business of the thriving publishing house. In 1896, Brill became a publicly listed company and one hundred years later, in 1996, the word 'Koninklijke' (royal) was added to the firm's name. Brill developed throughout the twentieth century into a small but significant international publisher. Today, the company is a broadly oriented publishing house and has many of the characteristics of an international university press, although with a clear focus on sustainable economic value creation as a strategy to protect its independence and standing in the market. Brill focuses on the academic research market in the areas of humanities and social sciences, international law, and natural history. The company outsources pre-press, printing, IT, and distribution to third parties, while only investing in its core activities and employing proven technologies.

Imprints and Products

Throughout its history, Brill has not only grown organically, but has also acquired many other publishers and imprints, including Nijhoff, IDC Publishers, Humanities Press, Styx, Index Islamicus, Gieben, Koninklijke Van Gorcum, Transnational, Hotei, Global Oriental, Forsten, Emerald and KITLV. At the end of 2013, Brill acquired Hes & De Graaf, followed by Editions Rodopi BV in the summer of 2014, Schöningh & Fink effective 1 January 2017 and Sense in July 2017. Brill currently uses the following imprints: Brill | Nijhoff, Hotei, Brill | Hes & De Graaf, Brill | Rodopi and Brill | Sense and maintains the Schöningh and Fink imprints. With the 2003 takeover of Martinus Nijhoff, publisher of the prestigious publication series of The Hague Academy of International Law, Brill gained a leading position in the field of international law publishing. The contract with this prestigious Summer School was renewed at the end of 2014.

Brill provides choice through a dual format publishing policy, based on a digital-first process. Books play a major role in the humanities, unlike the fields of natural sciences and engineering which focus largely on journals. Brill also supplies important primary source material, such as scans of historic archives and collections of documents, which are primarily sold online. Digital sales have grown in recent years and will be the prevailing format across books, journals and primary sources. Brill distributes the e-version of its products directly and through third parties, thereby strengthening its position and the dissemination of its publications. Due to the long-term value of scholarly information in the humanities, the life span of our products is generally long. Brill still sells modest quantities of older titles from its stock, or has these reprinted in small runs using digitization on demand and printing on demand. Since 2007 all new books are available as E-books and some of our much older and long running book series were successfully digitized and brought onto the market as a collection. Brill also offers regional and subject based collections. In this way, we make whole to our authors our unqualified promise that books from Brill will always remain available.

International: Authors and Readers

Brill has been an international player from the start. More than ninety-five percent of Brill's sales are generated outside of the Netherlands, comparable to the proportion of Brill's authors who reside abroad. Most clients are in Europe and North America, with Asia emerging. Brill is in contact with all top global academic research centers, but cherishes its traditionally strong link with the University of Leiden. Partly thanks to Brill's leading position in several areas in which the university specializes such as Islamic studies, minor languages, archeology, and Sinology – Leiden scholars are particularly well represented at Brill.

Digital Humanities

Brill is engaging with the emerging field of digital humanities. Brill has identified several technologies which we perceive will have a deep impact on the humanities and social sciences. Geographical Information Systems (GIS) and Spatial Software will introduce the use of maps and 3-D/4-D and will help analyze data by showing their spatial dimensions. Semantic search and related technologies will allow deep searching of text and linking them to each other. Pattern and image recognition facilitate comparative analyses and find similarities or spot differences. The applications will vary from making handwriting machine readable to the identification of subjects in paintings. Finally, we expect that statistical analysis will become fundamental to all the fields in which we publish. Applications will vary broadly and the availability of Open Data will trigger mining of data. In some cases, technology used in the digital humanities will enable new search engines (e.g. those that look for concepts rather than individual words), new visual applications (digital maps), or software (e.g. apps to scan images). In almost all cases Brill expects that compliance with linked (open) data standards will be necessary. Brill has joined select, relevant pilot projects and sometimes co-sponsors research activities in public-private partnership; with the objectives of learning from participation, becoming early adapters and acquiring licenses to promising software. Joining forces in digital scholarly research contributes to Brill's standing as a forward-looking publisher.

Marketing and Sales

Brill's direct sales efforts are focused on university libraries. For the past several years, libraries throughout the world have seen their budgets for the humanities come under pressure, yet university libraries have thus far maintained a relatively stable collection development policy and steady demand. The last few years have also witnessed an increasing trend toward purchases being made only when there is specific demand by scholarly end users. However, the institutional nature of the sales dictates that purchasing is done by the library.

Purchases by libraries are often made through third parties; journal agents act as intermediaries for subscriptions and traditional library suppliers have in part transformed into electronic middlemen.

Brill's marketing and sales strategy is focused on achieving the widest possible distribution of its products to reach beyond its primary market of professional colleagues targeted by the author. Cooperation with companies such as Google, Scopus, and Yewno increases the discoverability of Brill's publications and, thereby, its ability to operate more successfully in the present information society.

Publishing Rights and Distribution

Brill's publishing strategy consists of reinforcing and protecting its well-established brands and monitoring developments in specific areas of scholarly research. Brill employs a standard contract with its authors to establish a reasonable and legally sound basis for controlled distribution of the research by the authors themselves or by their institutions. This legal basis is achieved by a transfer of copyright or by licensing agreement. Brill plays an active role in industry developments, such as Open Access and Institutional Repositories, and has not experienced significant problems arranging copyrights and licenses.
Brill's portfolio is spread widely across numerous academic disciplines, sales channels, product formats, front and backlist, and is geographically diversified.

Organization and Employees

Brill is a centrally managed company with several corporate and delegated functions. The overall day-to-day management of Brill is entrusted to the Managing Director, who is also responsible for business development and human resources policies. The primary business activities rest with the publishing units, which focus on the key subject areas in which Brill operates. Our acquisition editors are responsible for multimedia product development and contact with their editors and authors. They are actively supported by two central departments: Sales & Marketing and Finance & Operations, each of which is led by an Executive Vice President.

Annual Financial Statements

Based on the ongoing appointment by the AGM of PricewaterhouseCoopers Accountants N.V. (PwC) as the company's independent auditor, the Supervisory Board instructed PwC to audit the financial statements of Koninklijke Brill NV for the 2017 financial year. For the 2017 financial statements an unqualified independent auditor's report was issued. We therefore recommend that shareholders approve these annual financial statements. We propose distributing an ordinary dividend of EUR 1.32 per share certificate for 2017. Also, based on our assessment of the capitalization and the financial structure of the company which was announced in the AGM of 2017, we propose to the AGM to pay an additional extraordinary dividend of EUR 3.00 per share. This special dividend will be paid from reserves and will lead to a responsible increase of the leverage of the company. The necessary cash resources are provided through newly agreed bank facilities; we consider the term sheet of the loan appropriate and justified. We expect the loan to be paid back in full after 6 years.

Activities

In addition to the usual detailed quarterly reports, the Board received interim reports in certain areas in preparation for meetings. During the year under review, the Supervisory Board met with the Managing Director and the management team to discuss or approve issues including: risk management, staffing developments, management development, long-term company strategy, cost development and management, the progress and development of publishing platforms, liquidity planning, credit facilities, investor relations, corporate governance issues and various investments. In 2017 special attention was given to individual presentations by each publishing unit concerning their market position and strategy, enabling the Board to better interpret the 2017 update of Brill's strategic plan. In considering the plan to expand in China, the Board weighed risks and opportunities before approving the decision.

The subject of business development opportunities and acquisitions is on the agenda for every meeting and progress reports are discussed as well as thoroughly prepared lists of possible partnerships in various countries. Reports from the external independent auditor are received and discussed on a regular basis. Progress reports on issues from the management letter issued by the external independent auditor receive special attention. Risk assessment and measures to mitigate risks are always discussed in the context of the annually updated management letter. In the bi-annual meetings with the Works Council, issues such as corporate culture and the tone in the company have been discussed without the presence of management and staff.

Seven meetings of our Board were held in Leiden and two telephone conferences took place. At all meetings, the entire Board was present. A recurring item on our annual corporate calendar is the remuneration of the Managing Director. We have decided to increase his salary with 2% for 2017. The objectives in the context of the variable remuneration scheme of the Managing Director and staff were determined and evaluated. The longstanding strategy of quality of the profits earned from core business, growth through product development, exploitation of electronic publications, and the acquisition of large projects has been fully maintained and where possible anchored in targets.

There were informal consultations between members of the Supervisory Board and the Managing Director and his team during this year. The Supervisory Board also continued to begin each meeting without the presence of the Managing Director, with the aim of discussing the functioning of the Supervisory Board, its individual members, and of the Managing Director and his team. The Board met with the Management Team and a broad selection of staff as they are invited to our meetings to present their strategic plans, major programs or investments. This gives the Board a chance to observe internal and hierarchical relationships as well as the tone in the company and the corporate culture in practice.

The evaluation of the Board itself took place in 2017, without help from external consultancy, but based on a structured list of questions and assessment which each member had filled out and which was jointly discussed afterwards. This evaluation, together with the Board's evaluation of the role, responsibilities and functioning of the Managing Director in view of the increased complexity of the business has led, inter alia, to an adapted design of the Management Board and Executive Committee following the upcoming succession of the current Managing Director.

The annual meetings with the external independent auditor to discuss the management letter resulting from the interim audit and the final reports took place in the presence of the Managing Director and staff. When discussing the management letter, this was followed by the customary annual discussion between the Supervisory Board and the independent auditor, without the presence of the Managing Director and staff.

During 2017 the Board has taken notice of the increased size and complexity of the business, and the increased requirements posed to the Company's system of internal control. After balancing increased cost against growing external and internal requirements the Board requested an investment in Brill's internal controls. This program commenced in 2017 and will be further enhanced in 2018. Notwithstanding the above, in 2017 the Board concluded that the company has no need to appoint a separate internal auditor. In the light of the international expansion and increasing complexity of the organization, the Board is following this matter closely.

The Board has furthermore spent considerable time on continuing the dialogue with investors regarding our Corporate Governance structure. We are happy that the change in voting policy announced by Brill's Trust Office has met with agreement within our investor community and that relations have been normalized. As part of the new government structure, the option agreement with Stichting Luchtmans was adjusted and renewed by the company and the Stichting Luchtmans, following the authorization granted in the AGM.

In anticipation of the retirement of the current Managing Director in May 2018, the Board spent considerable time on the issue of succession. Based on interviews with internal and external stakeholders, the Board has decided that the increased complexity of the company can be best handled by a Management Board of two. Possible profiles and organizational models have been considered and a survey of internal and external candidates has been discussed by the Board. The Board is pleased to have found two well prepared internal candidates who have convinced the Board that they have the right level of experience and the right ideas to take the company into the future. The Works Council has concurred with this conclusion and in early October 2017 Peter Coebergh, currently EVP Sales & Marketing, and Olivier de Vlam, currently EVP Finance & Operations, have been announced as the new CEO respectively CFO/COO from 18 May 2018 onwards. Their contracts will follow the Corporate Governance Code.

In close consultation with the current Managing Director and the Board, the new team has invited Ms. Jasmin Lange to become Chief Publishing Officer, effective 1 January 2018. Together the three new executives will form the Executive Committee of the company. During the process, attention was paid to the aspect of diversity in the top management of the company.

Profile

The Supervisory Board should be composed in such a way that each member of the Board – and the Board as a whole – can fulfill its role, which includes overseeing management policies and the general business of the company and its affiliates, as well as adequately advising the Managing Director. Given the global nature of the company's activities and those of its affiliates, it is imperative for all members of the Board to possess international experience. Moreover, there must be at least one member who is especially familiar with the operations of a publishing house and has experience as a publisher. Additionally, one member of the Board must have financial expertise, meaning that he or she will have acquired relevant knowledge and experience of financial administration and accounting within listed companies and other larger legal entities.

The Board, collectively, serves as audit committee. Also in 2017, the Board decided that separate commissions are not called for. The members of the Board need to have sufficient time at their disposal to perform their duties; in particular this applies to the Chairman of the Supervisory Board, and the Board met this requirement. The Supervisory Board consists of three persons. The members of the Board are independent within the context of the Dutch Corporate Governance Code.

We consider the composition balanced with two male members and one female member, all offering their individual but complementary expertise.

Corporate Governance

The Annual Report describes how the company has dealt with the implementation of the Dutch Corporate Governance Code that was in force during 2017. The new draft Code has been discussed in the Board and the prevailing concept of long term value creation has been welcomed. The Supervisory Board annually evaluates its instruments and processes in relation to the Code, and in 2017 maintained the policy to depart from the Code regarding use of certification as a possible method of protection. There were no transactions with conflicting interests relating to the Supervisory Board and Managing Director.

Annual General Meeting of shareholders

On May 16, 2017, the Annual General Meeting of shareholders took place at the company's office in Leiden. All resolutions presented were approved, including the proposed dividend EUR 1.32 per share.

Conclusions

The Board would like to express its gratitude to all involved in further improving the dialogue with Brill's investors. We consider having a stable base of investors supportive of Brill's strategy key to its successful execution. In 2017, Brill made significant progress in all areas of its strategy. Although non-recurring items and changes in accounting estimates dampened the reported results, we see an impressive number of projects, investments and innovative activities that will lead to a promising future. Amidst this high level of activity, the company has managed to further improve operational processes and grow the business, and we consider that a major achievement.

The Board would like to thank all staff for their contribution in 2017.

Leiden, April 4, 2018

Supervisory Board
Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

SUPERVISORY BOARD

Steven Perrick, 1949, Dutch (male)

Chairman of the Supervisory Board of Koninklijke Brill NV since August 24, 2016, term runs to 2020
Attorney at Spinath + Wakkie, Amsterdam
Professor emeritus in Civil Law at Amsterdam University
Chairman Stichting Ammodo
Board member Stichting Continuïteit NN Group
Board member Stichting Preferred Shares Mylan
Board member of Stichting Preferente Aandelen ASML
Board member of Stichting tot het houden van Preferente aandelen Wereldhave N.V.
Deputy Judge at the Court of Appeal in Arnhem
Editor and advisor of law publications

Catherine Lucet, 1959, French (female)

Member of the Supervisory Board of Koninklijke Brill NV since 2013, current term runs to the AGM in May, 2021 (appointed with special support from Works Council Brill)
Managing Director of Editis Education & Réference
Vice President of Cap Digital
Independent Board member and member of the Audit Committee Casino

Robin Hoytema van Konijnenburg, 1957, Dutch (male)

Member of the Supervisory Board of Koninklijke Brill NV since 2015, term runs to 2019
Senior Director Pensions Governance of Heineken International B.V.
Board member Vereniging Effectenuitgevende Ondernemingen (VEUO)
Board member American Chamber of Commerce in the Netherlands
Chairman of Stichting Heineken Pensioenfonds
Chairman of the Scottish & Newcastle Pension Scheme
Board member of the Heineken Afrika Foundation
Chairman of the Supervisory Board, Roeminck Insurance NV

CORPORATE GOVERNANCE

Koninklijke Brill NV, a public limited company under Dutch law, with its registered office at Plantijnstraat 2, 2321 JC Leiden, is the parent company of the Brill Group. The share capital of the company is divided into ordinary shares and cumulative preference shares. There are currently no cumulative preference shares issued. Of the issued ordinary shares, approximately 99% are certified and administered by the Stichting Administratiekantoor Koninklijke Brill NV. Only share certificates are listed on Euronext Amsterdam. Most certificates are held by Dutch investors. Over 60% of the certificates are held in tranches of 3% or more. Koninklijke Brill NV is a statutory two-tier company (operating under the Dutch 'structuurregime'). The articles of association, available on the company's website, regulate inter alia the appointment and dismissal of Supervisory Board and Management Board members, the rights allocated to the Annual General Meeting and the amendment of the articles of association.

Brill's Corporate Governance is set up in line with its business objectives and aligns with the Dutch Corporate Governance code except where noted otherwise below. In addition to the Code, Brill has implemented its Core Values and Business Principles which is available, together with Brill's other policies, at brill.com.

The functioning of the Annual General Meeting of Shareholders follows the stipulations of the Dutch Civil Code and is detailed in Brill's articles of association (available at brill.com). Brill's most notable deviation from the Code is the policy regarding use of certification as a possible method of protection. Brill is a relatively small, highly specialized and profitable publisher, active in the same areas as several very large publishing companies in an industry which is in consolidation. To pursue Brill's mission, continuity and independence are required. Therefore, management deems protection against hostile takeovers to be necessary.

Accordingly, the company has implemented defensive structures. Firstly the company has cooperated with the issuance of certificates of shares and these can be seen as a defensive measure in that the Stichting Administratiekantoor Brill (Trust Office) reserves the right in the event of situations as referred to in Art. 2:118a.2 DCC, not to issue voting proxies nor to accept binding voting instructions. During 2017, the Trust Office changed its voting policy, please refer to the Trust Office Board report.
Secondly, Brill has the possibility of issuing preference shares. In the event of such an issue, the preference shares would be placed with Stichting Luchtmans, which has the right to acquire preference shares to a maximum of 100% of the ordinary issued share capital.

Pursuant to a provision in the articles of association, the conversion of share certificates is possible to a limited extent (1%). In addition, shareholding is limited to individuals, the company itself, the Trust Office, and companies that were shareholders in the past (before July 29, 1997).

Share certificates will be maintained as long as they contribute to the set of measures that aim to ensure maximum protection and the enabling of a balanced decision making on the future of the company.

In line with the Code, the Board of the Trust Office consists of three independent members. The Board of the Trust Office shares the opinion of the Managing Director and Supervisory Board relating to the use of share certificates as a defensive mechanism.

Several responsibilities have been allocated to the Combined Meeting - the joint meeting of the Supervisory Board and the Management Board. The rights of the Combined Meeting include the determination of the number of members of the Supervisory Board, authority on profit distribution proposals, the making of proposals to amend the articles of association, dissolution and legal merger / demerger of the company. The Supervisory Board has not formed separate committees and currently does not intend to do so.

Diversity is an important aspect of the corporate management culture, as expressed in Brill's Core Values, where Brill states the importance of diversity and inclusiveness. Consequently, it is Brill's objective to achieve a balanced composition of all its governance bodies. In 2017, the company's Management Board consisted of one person (male), therefore the question of balance in the Management Board was not applicable. In designing the new management structure following the succession of the current Managing Director, Brill's objective regarding diversity was considered. Consequently, per January 1st , 2018 a female executive was appointed Chief Publishing Officer and as of May 2018, the Management Board will consist of two statutory directors, both male, working with the CPO in the company's key management body, the Executive Committee. The company has a Supervisory Board, since many years consisting of three persons of which one is currently female. Given the current composition of the management layers below the Executive Committee, Brill believes that maintaining this balanced distribution will be feasible in the future.

Regarding transparency between the Managing Director and the Supervisory Board, and between Supervisory Board members, clear agreements were made. The Managing Director's employment agreement is drawn up in line with the best practice provisions of the code. The company's existing rules of conduct, including regulations on insider trading, sexual intimidation, fraud and corruption and rules for misconduct reporting were further enhanced in 2017 by implementing the Brill General Business Principles (available at brill.com). The Principles were implemented at the end of 2017. However, management believes that the Principles documents values and behavior that is generally in existence at Brill. During 2017, on one occasion, Brill had to take action against an employee whose behavior was not in line with our Core Values, resulting in termination of the employee.

The Supervisory Board and the Management Board meet annually to discuss implementation of best practice guidelines and compliance with current legal requirements. They currently hold that the corporate governance structure of the company is broadly in line with the principles expressed in the Dutch Corporate Governance Code, except for the use of share certificates as a defensive mechanism.

Authors in closely defined market niches provide the foundation for future growth through their involvement in series, journals, manuals, and encyclopedias. In their capacity as researcher, they provide the purchase stimulus, often via their libraries and institutes. The librarians, in turn, only subscribe to series when they trust in the quality and pricing of future publications. The value of these subtle relationships with key stakeholders is and will remain the reason that the Supervisory Board and Managing Director believe the company deserves maximum protection.

The Supervisory Board and the Management Board are aware that protection of the company is generally only temporary in nature and primarily aims to create room to carefully weigh the strategic alternatives for the company and, if necessary, evaluate the situation with the key stakeholders. Therefore, it must be made clear to all stakeholders and especially to shareholders and holders of certificates of shares, what the company's strategy is, and what valuable elements from past, present and future are incorporated therein. The aim is to make the company an attractive investment for shareholders who prefer a strategy focused on long term sustainable value creation. Sustainable value creation is, in turn, largely dependent on Brill's standing among customers and authors.

An active investor relations' agenda is in place to communicate this coherent message, and retaining the trust and support of investors is a basic element of the corporate governance policy.

Regarding aspects of best practice provisions not relevant to protection, the Management Board and the Supervisory Board remain of the opinion that these are further supplementing the existing corporate governance structure. The experience the company has gained with the introduction of provisions in respect to corporate governance has been favorable. The release of the updated Dutch Corporate

Governance code in 2017 was followed with great interest by the Management Board and the Supervisory Board. During the year its benefits and implications were reviewed but this has not led to fundamental changes to the Corporate Governance structure in place. We are of the opinion that Brill's current governance supports strategies that help create long term value.

Brill believes that a listed company of modest size should be able to afford the cost and effort involved in proper compliance with the code, and continues to strive for further improvements in its governance structure. The Supervisory Board and the Management Board believe the proposed revised rules and the extended duty of compliance clearly contribute to improvement in managing the company.

Supervisory Board
Managing Director

Brill Core Values and Business Principles

Introduction
Brill's Core Values and General Business Principles apply to all Brill companies and their subsidiaries that together make up the Brill Group. These govern how Brill and all its entities operate and conduct business. Hereafter 'Brill' refers to the Brill Group and all its underlying entities.

LIVING BY OUR PRINCIPLES
Brill's mission is to be a leading international academic publisher in the humanities and social sciences, international law, biology and natural history. Brill meets a need for multimedia information amongst specialist academic target groups and markets. To achieve its mission, the company must add value and grow consistently, mainly by increasing its market share in the fields in which it is active as well as in adjacent niches. The overriding objective is to maximize Brill's long-term value creation benefitting all stakeholders, including the global community that provides Brill its license to operate.

Our shared core values of quality service to the scholarly community, integrity and respect for people underpin all the work we do and are the foundation of our General Business Principles. The General Business Principles apply to all transactions, large or small, and drive the behavior expected of every employee in every Brill company in the conduct of its business at all times. We are judged by our actions; therefore, our reputation will be upheld if we act in accordance with our Core Values, these Business Principles and the law. We encourage our business partners to live by them or by similar principles. It is the responsibility of management to lead by example, to ensure that all employees are aware of these principles, and behave in accordance with the spirit as well as with the letter of this statement. Employees know that acting in line with the Principles is not optional and non-compliance can have consequences.

The application of these principles is underpinned by communication procedures, which are designed to ensure that our employees understand the principles. As part of the assurance system, it is also the responsibility of management to provide employees with safe and confidential channels to raise concerns and report instances of non-compliance. In turn, it is the responsibility of Brill employees to report suspected breaches of the Business Principles to Brill.

OUR VALUES
Brill employees share a set of core values – quality service to the scholarly community, integrity and respect for people. We also firmly believe in the fundamental importance of trust, diversity, teamwork and professionalism, and taking pride in what we do.

RESPONSIBILITIES and SUSTAINABLE VALUE CREATION
As part of the General Business Principles, we commit to sustainable development of our company. We are aware of Brill's legacy and are committed to an equally illustrious future. This requires balancing short- and long-term interests, integrating business, environmental and social considerations into our decision-making.

At Brill, we believe that creating sustainable value for all stakeholders is essential to ensure the long-term viability of the company. The company's ability to create value hinges on achieving a balance between serving the scholarly community and business considerations. To achieve this balance, we define value in terms of value created for our stakeholders. This value creation, and Brill's standing with each of these stakeholder groups is the condition for our company to remain relevant within a changing media landscape. We recognize the following stakeholders and areas of value creation:

- Authors – Publishing Service Value
- Librarians and funders– Account Service Value
- Readers – Content and Usability Value

- Investors - Economic Value
- Staff – Development Value
- Global Community – Community Value

The Principles

Principle 1 ECONOMIC PERFORMANCE

Long-term profitability is essential to achieving our business goals and to our continued growth. It is a measure both of efficiency and of the value that customers place on Brill products and services. It supplies the necessary corporate resources for the continuing investment that is required to develop and produce future publications to meet customer needs. Without profits and a strong financial foundation, it would not be possible to fulfil our responsibilities. Criteria for investment and divestment decisions include sustainable development considerations (economic, social and environmental) and an appraisal of the risks of the investment. Risk management is a key element of our management process of sustainable value creation.

Principle 2 QUALITY SCHOLARLY SERVICE

Brill companies aim to provide the scholarly community with the highest level of quality and service. To this end, Brill invests not only in developing its network of scholarly authors and editors but also in offering them sound processes of peer review, continuous availability of their publication, editorial tools and standards that meet up to date requirements for digital dissemination, competitive production quality and a reliable distribution channel that ensures availability at each author's target audience of academics who use new technology in an increasingly networked digital environment. We are committed to standards of editorial integrity and independence, and our editorial policy only applies academic quality as a criterion for publishing, not adherence to any political, religious or other non-academic viewpoints.

Principle 3 BUSINESS INTEGRITY

Brill companies insist on integrity and fairness in all aspects of business and expect the same in our relationships with all those with whom we do business. The direct or indirect offer, payment, soliciting or acceptance of bribes in any form is unacceptable. We do not engage in the practice of facilitation payments to speed up or secure the performance of a routine government action. Employees must avoid conflicts of interest between their private activities and their part in conducting company business. Employees must also declare potential conflicts of interest. All business transactions on behalf of a Brill company must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and are subject to audit and disclosure. As a publicly listed company, Brill is committed to following all rules around insider trading.

Principle 4 POLITICAL ACTIVITIES

Of companies

Brill companies act in a socially responsible manner within the laws of the countries in which we operate in. Brill companies do not make payments to political parties, organizations or their representatives. Brill companies do not take part in party politics. However, when dealing with governments, Brill companies have the right and the responsibility to make our position known on any matters, which affect us and our stakeholders, which is in accordance with our values and the Business Principles.

Of employees

Where individuals wish to engage in community activity, including standing for election to public office, they will be given the opportunity to do so; however, we do not use Brill's assets, including our time at work, to further personal political activities or interests.

Principle 5 CORPORATE SUSTAINABILITY
We create value for the global community and specifically the scholarly community by being a reputable publisher who facilitates the scholarly process in selected scholarly disciplines. Specifically, we believe that editorial integrity and freedom of press is in full service of the free flow of scholarly information. Acting efficiently, in the meaning of creating output using the minimal required amount of resources in the broadest sense, is of direct benefit to the scholarly process as well as to society at large, and therefore supportive to Brill's long-term reputation and continuity.

Our corporate sustainability policy can only be successful if it ties in with our core capabilities and the long-term interests of our stakeholders. Consequently, we focus on just those initiatives where we feel we can make a difference. At the same time, we strive for high standards and permanent improvement in all general facets of responsible corporate citizenship – and we expect the same from our vendors and contractors.

Principle 6 COMMUNICATION AND ENGAGEMENT
Brill companies recognize that regular dialogue and engagement with our stakeholders is essential. We are committed to reporting of our performance by providing full relevant information to legitimately interested parties, subject to any overriding considerations of business confidentiality. In our interactions with employees, business partners and local communities, we seek to listen and respond to them honestly and responsibly. Brill staff is committed to responsible use of digital communications and social media in line with Group policies.

Principle 7 COMPLIANCE
We comply with applicable laws and regulations of the countries in which we operate. Brill's tax policy is aimed at achieving an efficient tax structure while paying fair amounts due in the constituencies where it does business.

Implementation
To create a coherent framework for conduct of business within the Brill Group, these General Business Principles have been detailed further into the following documents:

1. Corporate Governance Policy (refer to separate Chapter)
2. Code of Conduct
3. Vendor Policy
4. Remuneration Policy (refer to separate Chapter)
5. Corporate Sustainability (refer to separate Chapter)
6. Risk Management Policy (refer to separate Chapter)
7. Whistleblower Policy
8. Code of conduct on Insider Trading

For documents listed above which are not included in this report, please refer to brill.com

VALUE CREATION PROCESS AT BRILL

At Brill we believe that our ability to create sustainable value for all stakeholders is essential to the long-term viability of the company. We recognize the following areas of value creation:

Authors – Publishing Service Value

We are proud that every year, an increasing number of prominent scholarly authors select Brill as their publisher of choice. This choice is a vital one to the development of an author's scholarly field and individual career. Authors select Brill for the reputation of its brand, journal titles and book series. Independence, long-term commitments and strict peer review are key to maintaining a strong reputation. Authors know that the scholarly teams that curate the research we publish have been selected based on the quality of their contribution to the field. Brill provides tools and support to maintain an efficient and high-quality publishing process, based on a deep know-how of publishing and the publishing experience. Authors and editors must be served in the best possible way. Brill has the investment capabilities for more complex and capital-intensive projects. Authors know that Brill has access to the world's premier research libraries through its distribution system and that Brill will work with them or their institution in various commercial models according to their preference.

Librarians and funders– Account Service Value

Our publications can be found in the most eminent institutions in each field in which we publish. In working with these institutions, we strive to offer flexible and attractive models that enable libraries and funders to work with us efficiently. We offer our content through platforms which enable them to provide library patrons with easy access to our publications. We provide librarians with data and tools to evaluate the use of our services to their patrons and to calibrate their purchasing decisions. We offer funders flexible models to subsidize scholarly research of choice, either in traditional or in Open Access structures. We work with global distribution partners that enable efficient ordering processes. In 2017, we invested in constructing a new digital platform that will further enhance ease of access and communication with Brill, readers and clients.

Readers – Content and Usability Value

For our readership, ease of access and ease of use is the primary consideration. We support scholars in performing their critical task of progressing their scholarly field. Online readers do not search for content from a brand or supplier but rather by subject or keyword and then prioritize results based on the reputation of the journal title or book collection. On our platforms, a large majority of internet traffic originates from Google (Scholar) searches. Increasingly we see readers accessing our platforms from mobile devices. Our job is to make the experience seamless, enabling a fast and effective search experience and when the reader arrives at our platform, a comprehensive and efficient research experience. Where applicable, readers will be offered additional purchase options relevant to their interest.

For those readers preferring the print format we aim for quality and service by working with Printing On Demand providers who are quality leaders in their region. Those customers preferring the print option value a high-quality product which is available for use within a short period of time. The implementation of a multisite POD structure further delivered value in that context. Only in exceptional cases offset printing is considered the preferred method of production. This applies mainly to major reference works and when technical or economic considerations indicate special binding requirements or larger print runs.

Investors - Economic Value

The economic value created for our investors is determined by the company's ability to profitably grow the business. The resulting value creation is a precondition to maintain our investor's confidence and support in case of additional capital requirements. A focused investor relations policy remains vital to communicate the value created and to manage expectations.

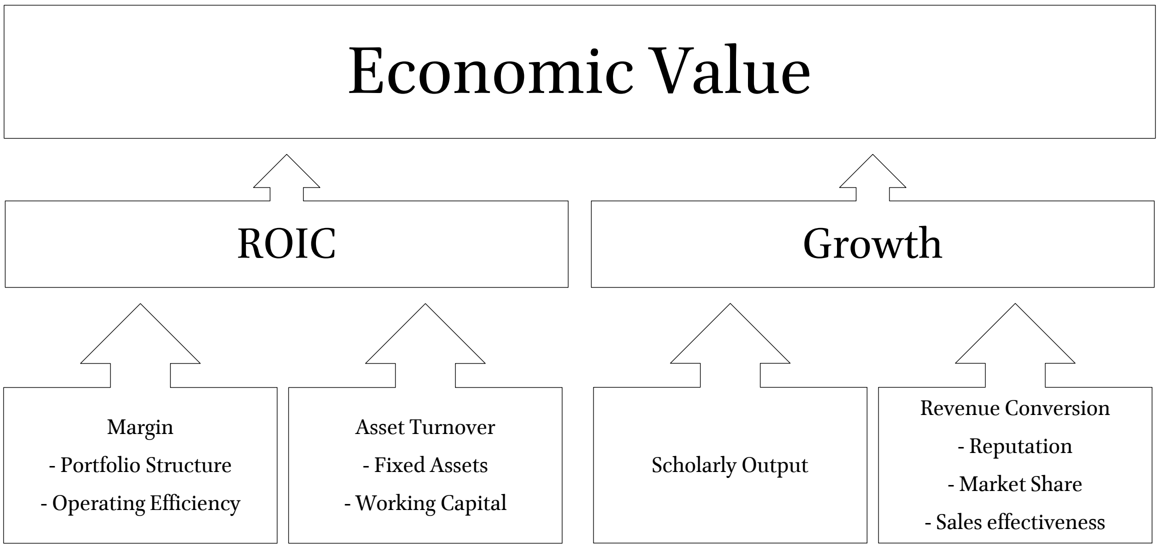
Growth
The scholarly research community realizes a steadily growing output in the form of scholarly books and journal articles. Brill's ability to grow the business rests on being granted the right to publish a stable or increasing proportion of the high-quality research that is produced, and to successfully bring the resulting publications to the market. In doing so Brill must remain intimate with changing market preferences for alternate business models and ensure appropriate geographical coverage, for example in Asia.
In addition, Brill invests in self-generated publication initiatives such as dictionaries, encyclopedia, other reference works or primary sources where it believes synergies can be created from Brill's reputation, its author community and its existing portfolio of products and services. These opportunities can represent significant value due to their unique and proprietary nature and associated recurring revenue streams.

Profitability
Profitability at Brill, as stated by the Return on Invested Capital or ROIC is driven by two key factors:

> *Margin* – measured as Net Operating Profit Less Adjusted Taxes (NOPLAT) divided by Revenues. We believe that, even more than the required continuous operating efficiency improvements, product portfolio structure is paramount to long-term improvement of margin.
>
> *Asset Turnover* – as measured by the average amount of invested capital required to support the revenue. We actively seek to optimize capital deployment to keep ROIC at target levels.

Our ROIC performance therefore is driven both by our ability to generate profitable revenue as well as by controlling the balance sheet, and our KPI system is geared towards monitoring these drivers.

In 2017, Brill reported mixed results on its economic value drivers. Revenue grew by 13%, of which 11% through acquisitions - and asset turnover increased from 1.5x to 1.7x. However, NOPLAT margin dropped and consequently ROIC declined from 13.0% to 11.1% which still exceeds our after tax weighted average cost of capital. (For details, please refer to note 23 to the Consolidated Financial Statements).



Staff – Development Value
Brill has a unique company culture and working environment which is an asset for attracting and retaining talent, despite the company's limited size. Staff values their employment because of the internationally oriented company culture combined with high professional standards, development opportunities, and global exposure. Brill develops these factors through job rotation, delegation of authorities, training – both on the job as well as formalized training – and periodical team and general staff events. During 2017 we

devoted special attention to the cultural integration of the Schöningh & Fink team in Paderborn (GER), for example through extensive integration workshops, mutual visits and a joint staff event with Leiden staff.

Global Community – Community Value

We create value for the global community and specifically the scholarly community by playing our role as a reputable publisher who facilitates the scholarly process in selected scholarly disciplines in a responsible and efficient manner, in the meaning of creating output using the minimal required amount of resources in the broadest sense. We believe that this is of direct benefit to the scholarly process as well as to society at large, and therefore supportive to Brill's long-term reputation and continuity.

At Brill we believe that our corporate sustainability policy can only be successful if it ties in with our core capabilities and the long-term interests of our stakeholders. Consequently, we focus on a few initiatives where we feel we can make a difference. At the same time, we strive for permanent improvement in all general facets of responsible corporate citizenship.

For further details on our Corporate Sustainability policy, please refer to the relevant chapter in this report.

Remuneration Policy, Supervisory Board

The remuneration of the chairman and the members of the Supervisory Board is set at a fixed annual amount and does not include variable elements. The members do not receive any performance-related remuneration or shares and do not accrue pension rights with the company. They receive no severance pay when they exit the Board. The remuneration of the Supervisory Board is regularly evaluated, if necessary using the advice of a third party. Remuneration was adjusted in 2017. Brill established guidelines governing the holding of and transactions in securities, other than those issued by Brill, by Supervisory Board members.

Remuneration Policy, Management Board

The remuneration of the Management Board is determined by the Supervisory Board based on the remuneration policy. This is in line with the principles and the best practice provisions of the Dutch Corporate Governance Code. The policy with respect to the remuneration of the Management Board is designed to enable a qualified and expert person to be attracted and retained. The Supervisory Board, if necessary with the aid of an external expert, conducts annual reviews to establish whether the Management Board's remuneration is in line with the market development. The remuneration for 2017 has a fixed portion and two performance-related variable components of which one is for the current year and the second for a three-year horizon.

As part of its remuneration policy and in line with the Code, Brill monitors and reports on the company's pay ratio. This indicator compares the salary of the Managing Director (Fixed + variable components) against the average salary of all employees. In 2017, the pay ratio was 5.6. Brill deems the height of the payout ratio to be appropriate given the size and profile of the company.

The Supervisory Board decided to increase the Managing Director's fixed remuneration as of 1 January 2017 by 2%. Furthermore, current policy holds that the company partly funds the Managing Director's pension premiums, provided that the Director contributes 30% of the premiums due. The new rules with regard to capped contributions for salaries above EUR 100 thousand did not lead to additional costs. The Supervisory Board has agreed with the Managing Director to maintain the amount for pension premium which existed before the cap and have him provide for personal savings. The company does not grant loans, advances, or guarantees to the Managing Director.

A The Supervisory Board sees variable remuneration as a meaningful part of the remuneration package of the Managing Director. The targets and performance conditions reflect the drivers for growth and value creation in the short, medium and long term. Variable compensation, determined by performance metrics, therefore, is a significant part of total remuneration. From 2009, the variable component of remuneration related to short-term targets has been a maximum of 40% and for the three-year, long-term objective, a maximum of 40% of the base salary in the year that the objective was agreed.

B The policy of the company relating to the contract of employment is in line with best practice provision of the Code. The applicable notice period is four months and is in line with standard practice.

C As usual, in 2017 the variable remuneration of the Managing Director was dependent on a combination of short-term and long-term performance criteria. Details on the performance criteria and performance assessment regarding 2017 are included in the financial statements, note 21.

D No rights are allocated to the Managing Director for the acquisition of options or shares. The Managing Director's holding of Brill certificates of shares is considered a long-term investment which he committed to not sell or pledge during his employment. Following his retirement in May 2018, the Managing Director has committed to keep his certificates for at least another year.

E The Supervisory Board has made an agreement with the Managing Director about ownership of and transactions in securities other than those issued by Brill.

Risk Management policy

The risk management policy of the company is updated in the context of the company's strategic plan. Over time, the company adopted an approach consistent with its scale, ambitions and organization structure.

Risk management is integral to Brill's overall management structure. Risks classified as having strategic impact are discussed with the Supervisory Board annually to enable the Board to make proper evaluations regarding Brill's results and prospects. Furthermore, the Board evaluates the entire risk management framework on an ongoing basis.

Brill's policy requires that mitigating measures applied to each risk are commensurate to the level of impact and the risk appetite that Brill defines regarding the specific risk category.

Risk Management

Management of risk at Brill is generally executed through three categories of risk management tools:

Organization and Governance – The organizational structure and culture of Brill must support identification of risk and avoidance of risk by taking well informed decisions on a timely basis. This requires certain levels of delegation and empowerment. Governance must ensure an adequate framework of accountability.
Internal Control Framework – the framework of internal controls must provide reasonable assurance that:

- business processes are carried out effectively and efficiently to achieve their objectives with a reasonable measure of assurance
- financial statements adequately reflect the business' financial position and development

Business Policies – The framework of business policies must ensure that Brill can:

- Capture business opportunities
- Avoid undue risk of losses to company assets
- Execute on its strategy

Risk management is in the hands of the Management Team of Brill, under the end responsibility of the Managing Director. Day to day supervision lies with the EVP Finance and Operations, and execution is delegated as follows. Design, implementation and execution of financial control measures is carried out by the Controller, whereas the design, implementation and execution of IT related controls are carried out by the team that is accountable for administration of the system. Specific measures and improvements are implemented, driven by a combination of management's assessment of current risk profiles and the annual Management Letter supplied by the external independent auditor. Brill's Supervisory Board reviews all reporting by the external independent auditor. Due to the small scale of operations and the high degree of centralization of accounting, Brill does not have an internal auditor. The decision to abstain from appointing an internal auditor is reviewed annually by the Supervisory Board.

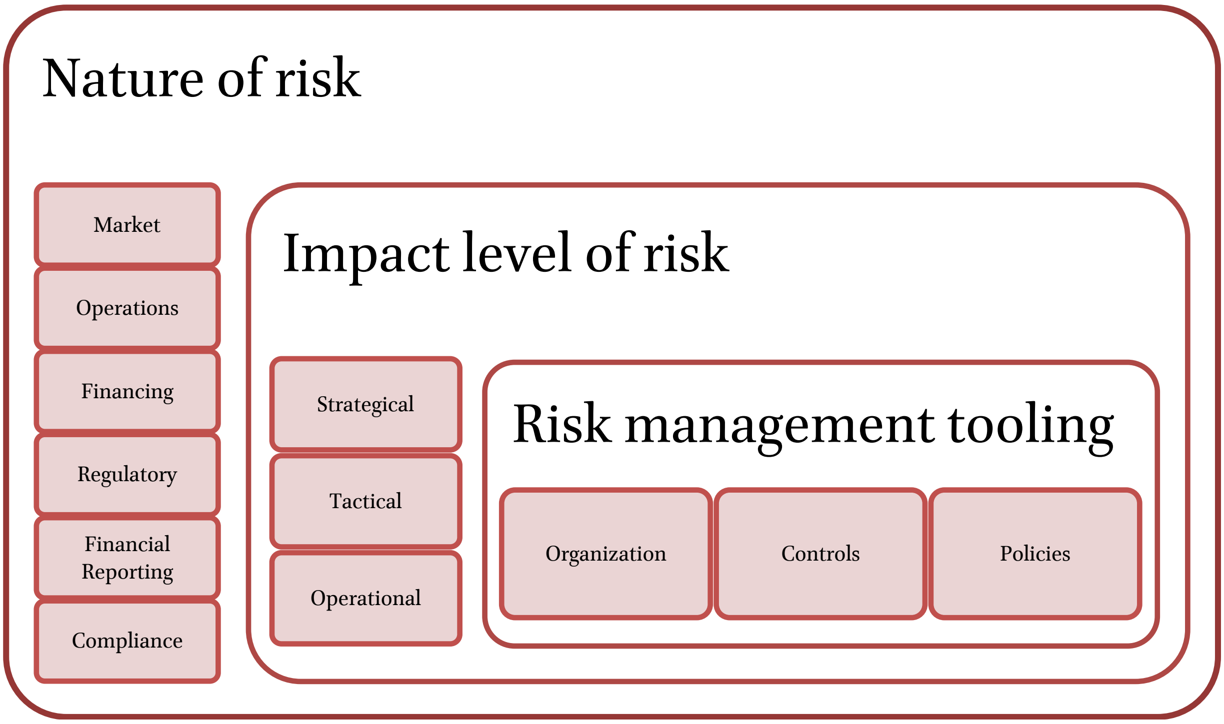
Risk Classification

To assign risk management accountability correctly within the organization, Brill classifies risks as follows:

A. Level of impact of the risk on the business of Brill
- Operational
- Tactical
- Strategic

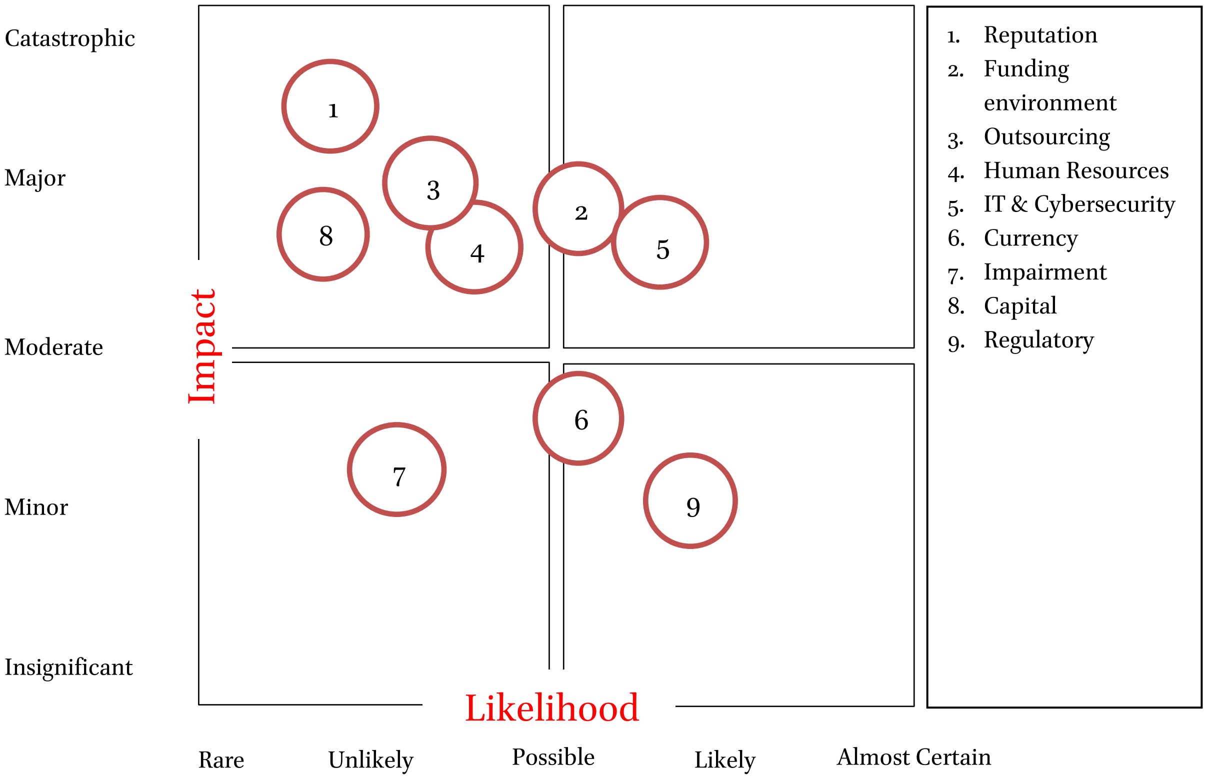
B. Nature of the risk
- Market – the risk relates to a change in market circumstances that impacts market participant's propensity to purchase Brill's product, to use Brill as their publisher of choice or to supply goods and services required by Brill at economically viable rates.
- Operations – the risk relates to an event or trend that impacts Brill's operational capacity to execute its strategy successfully and manage its business as a going concern. This category explicitly includes IT, outsourcing and cybersecurity risks.
- Financing – the risk relates to an event or trend that impairs Brill's ability to attract sufficient funds to finance working capital or long-term investments and therefore its ability to operate as a going concern and execute its business strategy.
- Regulatory – the risk relates to changes in legislation or governance with effect on Brill's current business arrangements, on Brill's stakeholders and their capacity or propensity to transact business with Brill (in short, impact on Brill's 'license to operate').
- Financial Reporting – the risk impacts Brill's transparency on its results and financial position – both internally for management purposes as well as to its stakeholders.
- Compliance – the risk impacts Brill's compliance with applicable law and regulations or it impacts Brill's Business or Financial Reporting through transgressions of applicable law or regulations.

Consequently, Brill's Risk management analysis and tooling framework can be summarized as follows:



Discussion of specific risks with impact at the strategic level

The risks set out in this overview have been classified per the system described above and are linked to the objectives pursued in Brill's strategy, the company's applicable risk appetite, and the mitigation strategies in place. The following depicts a visual classification of specific risks at the strategic impact level to illustrate our assessment of our risk profile and the level of risk that the company is willing to take:



The risk appetite ratings in the following table should be interpreted as ranking measures rather than as an absolute, calibrated, proportional measure of risk. Risk appetite per category is based on an annual management assessment.

Nature of the Risk	Description of the Risk	Objective threatened	Risk Appetite (1=lo & 5=hi)	(Type of) Mitigation in place
Market	*1. Reputation:* Various events may impact the company's reputation versus its stakeholders which is the cornerstone to Brill's ability to run and develop the business	Strategic objective to expand in current and adjacent segments	1	*Organizational:* Organizational structure that enables the company to react and adapt flexibly to changing market circumstances. *Business policies:* Editorial policies, Communication policy, Investor relations policy, Code of conduct policy.

	2. *Funding environment:* Our customers and authors depend on their respective governments' and societies' willingness to support Humanities and Social Sciences for funding of their purchases at Brill and their collaboration with Brill	Expand in current and adjacent segments	3	*Business policies:* Increased focus on repeatable business, expansion into adjacent market segments, tap alternative funding sources (ERC)
Operations	3. *Outsourcing:* failed outsourcing may impact business continuity or quality and pricing of services used leading to reduced competitiveness.	Enhance operating capacity	1	*Organizational:* quality of Brill staff *Control measures:* SLA's, vendor selection process *Business policies:* insurance, contingency and back-up measures
	4. *HR Risk:* we may not be able to attract and retain the right staff	Achievement of strategic plan	2	*Business policy:* Develop Brill reputation and culture as attraction and retention mechanism
	5. *IT and cybersecurity risk:* Deficiencies in our IT general controls may lead to reduced efficiency, business continuity and increased risk of fraud or exposure to cybersecurity risks	Enhance operating capacity	2	*Control measures:* Segregation of duties, IT user & access management policies *Business policies:* Contingency and back up measures, security measures, communication on IT and cybersecurity risks
Financing and other	6. *Currency:* Significant swings in the USD / EUR exchange rate may impact our results	Improve financial performance	2	*Business policies:* Hedging policy (refer to financial statements)
	7. *Impairment risk:* The company carries substantial intangible assets on its balance sheet. Deteriorating business performance may lead to impairments which could cause substantial erosion of equity.	Improve financial performance	2	*Internal controls:* Annual review of the value of intangible assets *Business policies:* Conservative valuation calculations when doing acquisitions, reduction of assets required to run the business

	8. Capital: Investors may not be willing to fund Brill's strategic plan	Expand in current and adjacent segments	1	*Business policies:* Investor relations policy, focus on financial performance improvement *Internal Controls:* Framework of controls aimed at financial reporting reliability.
Regulatory	*9. Regulatory:* EU Open Access policy may impact our ability to further grow our journal business	Expand in current and adjacent segments	2	*Business policies:* In addition to our journal subscription business we develop our database (subscription) business which is not touched by this policy. Also, we keep developing a portfolio of Open Access publication options to prepare for changing market demand and possible paradigm shifts .

Risk management and internal control in 2017

In 2017 Brill made some progress in further enhancing the company's framework of internal controls, based on recommendations made by the external independent auditor following discussion with management and the Supervisory Board. Specific improvements were made in segregation of duties regarding key IT systems and clarification of rules around end-user IT. We enhanced visibility of certain implemented controls and enhanced reporting systems to support management and external reporting. Improvements in controls concerning client access to our online databases are included in the scope of our program to renew Brill's online platform which has its main improvement impact in 2018.

Notwithstanding the above, certain risks relating to outsourcing and technology management materialized during 2017. The delay in the go -live of our new online platform caused delayed business benefits in terms of digital revenue that can now be realized later. An error in EDI implementation for the ordering process between a major US customer and our logistical provider caused over – ordering during 2016 and 2017 and consequently, excessive returns during 2017. In addition, we reported omissions in our royalty accruals which we identified in the first half year, leading to additional expenses in 2017.

The 2017 interim review performed by the external independent auditor reported some progress on the issues and recommendations for improvement that were outstanding by the end of 2016. However, the external independent auditor identified additional opportunities for improvement also considering the increased complexity of the business. Furthermore, some issues have not been solved in 2017 and are now deferred to 2018. In general, the improvement opportunities center around IT General Controls and the visibility and formalization of implemented control measures, as well as on the balance in the framework of internal controls.

1. Publishing Program 2017

In the publishing department, 2017 has seen a lot of new activity.

The publishing houses Ferdinand Schöningh and Wilhelm Fink (S&F) joined early in the year and almost doubled Brill's cooperation with scholars in the German speaking countries. We expect this market to -over time- develop a strong interest for predominantly English language publications for a global market. The combination of Brill's product for the international institutional market in English and S&F's list which is currently geared to a market of individual book buyers in German offers interesting synergetic potential. Especially the student and retail oriented trade list under the UTB umbrella opens new market approaches for Brill. It makes us a more prominent player for the German academy, offers good potential for cross selling and retail coverage in Germany and better opportunities to gain market share in Open Access publication programs. Thematically, the combination is also promising, particularly in philosophy, modern history, art history, theology and canon law. The acquisition of mentis Verlag strengthens the philosophy list further and will help Brill cover a larger part of this important field.

In the first year of integration, good progress has been made in defining the rules of our common publishing practice and start implementing programs to standardize and leverage economies of scale. Adjusted for some delays in moving the program to Brill's electronic platforms, revenue of S&F met expectations and the staff in Paderborn deserves a compliment for publishing a vibrant front list.

Moreover, the team of publishers have secured the new edition of *Huizenga's Herbst des Mittelalters* and is working on attracting other major publication projects. We hope that based on our successful acquisition of S&F and mentis Verlag and the respectful integration of the combined programs, Brill will be able to attract other high-quality publishing companies in the "DACH" market who look for help in establishing a digital presence and a global reach.

Mid-year we acquired Sense Publishers, a first acquisition in the field of the Social Sciences. In the first six months a great number of new books were published in their special field of Educational Studies. Right from the start the publishing staff began to acquire continuity product such as major reference works and journals, based on Brill's successful practice in these formats. We are confident that the list will keep developing swiftly to become a cornerstone in this much larger market, which is somewhat new to Brill. The Social Sciences have a slightly different publication culture; there is more journal orientation and the research is often data driven. This will offer good opportunities to give new energy to some product formats in Brill's humanities programs. Obviously, some smaller programs of Brill which border the Social Sciences, such as regional studies, cultural studies, gender studies, sociology of religion are the first to benefit from these synergies. As with our strategy for the DACH market, also the Social Sciences are expected to offer good leads for further acquisitions going forward.

As in almost every year, Brill managed to take over separate publishing assets, such as Arkyves (art history database, see the article on Digital Humanities in the brochure *Brill in 2017*) and the full rights to the *International Encyclopedia of Comparative Law*.

Meanwhile, the existing Brill organization saw important new products across the board and welcomed new talent in Linguistics, Asian Studies, History of Sciences and Digital Humanities. In addition to books and journals, the product formulas *Critical Reading* (anthologies of key papers in specific fields), *Brill's Research Perspectives* (long review articles sold as journals as well as books) and *Primary Sources Online* saw promising new titles.

The Asian Studies list maintained its momentum and the contemporary Chinese Studies program kept developing well. Also, the development of the East Asian linguistics list offers good opportunities, including harvesting of dictionaries and grammars published by Brill in the past. The primary sources collections of historic Asian newspaper and gazettes were expanded. The bibliography of Asian Art (ABIA) was relaunched.

In the History program, the Luther collection played an important role. The Encyclopedia of Early Modern History saw two new volumes and is on track to publish the full 15 volumes. On a contemporary note, an agreement with the casa de las Americas in Havana opened the door for a first primary source collection; Cuban History and Cultural Relations was marketed successfully through a campaign making use of salesforce.com software. Other collections such as Weapons of Mass Destruction and other U.S Intelligence, among others on Asia and all based on released CIA files, continue to build Brill's reputation in modern history. The same goes for the SHAFR guide, which contains the annotated bibliography of U.S. foreign relations since 1600.

In the Law list several developments are worth mentioning; in our negotiations with the consortium of Dutch universities (VSNU), all law journals have been made available for Open Access articles from Dutch authors as part of a lump sum deal for all subscription based journals of Brill. It will be interesting to watch how many submissions this option will trigger in the next couple of years. If successful, the consortium may want to negotiate an overall agreement with Brill along the same lines.
After many years of co-publishing, the exclusive rights have been acquired for the International Encyclopedia of Comparative Law. For China, several legal publications have been published. Some of these appear as Brill Research Perspectives. This formula and brand is now exclusively reserved for Brill to roll out across all disciplines, Law being the piloting publishing unit.

The Middle Eastern, Islamic and African Studies team developed publishing plans for the area in general and for Iran Studies in particular. Our bid for Open Access projects, resulting from research paid for by the European program Horizon 2020, was successful. Also in other publishing programs we have been granted multi-year commitments from research groups in France, The Netherlands and Germany for Open Access publications.

In the unit which covers Art, Religion, Philosophy and Classical Studies, many projects appeared and many reference works are in progress. Special mention is given to the Peshitta, a text critical edition of the Syriac Bible. This and other long-standing series are digitized for on line publication. Ongoing major works such as the Textual History of the Bible will provide the scholarly setting of a coherent cluster of reference works. The major History of Global Christianity project is being revitalized for publication in 2018 and beyond.
Also in Art & Architecture, the relaunch of Arkyves and the cooperation with the Harvard Semitic Museums are of note. New projects for Jewish art and Archaeology have been started and the first volume of the Encyclopedia of Jewish History and Culture, a translation from German, saw the light in 2017. The Art Sales Catalog database showed the holdings of the museums in Boston and Philadelphia which have added their collections in 2017.

In Philosophy, we are working across the Leiden and Paderborn teams to create a multi-lingual program of journals, books and reference works. A few new journals under which *Revue de Synthèse* joined the list and the mentis Verlag acquisition in early 2018 will foster our presence in the field. Meanwhile the Classical Studies program keeps featuring classical philosophy, a/o. in Philosophia Antiqua, and carries large numbers of reference works, companions, handbooks and journals. The concept of digitizing long-standing series of monographs was successfully applied to the Mnemosyne Supplements.
The impressive Brill Dictionary of Ancient Greek by Franco Montanari is being marketed on a continuous basis and grew it's online presence based on an improved license to libraries. The dictionary will have to be reprinted in 2018.

2. Financial Report 2017

2017 was a record year in terms of revenue. Brill is now closer to the objective to achieve sufficient scale for structural improvements in profitability. However, we also incurred several significant one-off effects. As a result, EBITDA and net profit came out lower compared to 2016.

In 2017 we elected to change the classification of our investment in product development costs from Inventories (under IAS 2) to Intangible Assets (under IAS 38). This is intended both to provide the user of these statements with greater transparency as to our investment level and to bring reporting more in line with the digital reality, meaning that the content is an asset that can be employed both to produce print books and to sell digital licenses. The change is only a reclassification and has no impact on results.

Furthermore, following the two acquisitions made in 2017, we assessed our approach towards accounting for acquired intangible assets. Further to this assessment we elect to amortize acquired intangible assets in line with their useful life, where this can be reliably established. Pursuant to this change, an amount of EUR 82 thousand was recognized as amortization in the 2017 income statement.

Revenue

In 2017, Brill's revenue increased by 13% to EUR 36.4 million (2016: 32.2 million). This growth, breaking down into 2% organic (3% when adjusting for the returns issue) and 11% acquisition, compares to 4% reported growth in 2016. Key drivers for our organic growth in 2017 were digital publications including e-books, major reference works, journal subscriptions and primary sources, whereas print books declined due to excess returns (EUR 0.2 million) and changing market preferences.

(in EUR million)	Revenue	% of total Growth	Year on Year Growth
Revenue 2016	**32.2**	100.0%	
Acquisitions	3.5	11.0%	n.a.
Print books	-0.4	-1.2%	-3.1%
e-books	0.8	2.4%	9.4%
Journals	0.2	0.7%	2.4%
Primary Sources	0.1	0.4%	10.8%
Other	-0.0	-0.2%	n.a
Revenue 2017	**36.4**	**113.1%**	**113.1%**

Revenue generated through digital products was EUR 18.3 million or 50% of total, versus EUR 17.0 million or 53% in 2016[1]; an increase of EUR 1.3 million or 8%. The acquisition of Schöningh & Fink brought the percentage of digital product down as this company is in its early stages of publishing e-books. Revenue generated through subscriptions was EUR 13.8 million or 38% of total, up from 13.4 in 2016; an increase of EUR 0.4 million or 3%.

Across combined print and digital formats, books grew by 18% and journals by 2% reflecting acquisitions, successful sales efforts but also continued new book title output, growth in subscription value and new journal title development. A persistent trend in the print monograph format remains hyper-specialization where it becomes harder to achieve the same print runs per title as before. In other words, we need more title output to realize the same level of revenue.

The balance of major sales deals (i.e. over EUR 100 thousand per order) versus last year was neutral. We successfully closed deals with new clients, for example in Canada and South America but also with existing e-book customers – notably in China.

[1] Note 2016 aligned with a changed measurement of digital versus print journals starting 2017

Growth in Asia was particularly strong, amongst others because of our increased presence and visibility in the region. During the year we opened an office in Beijing; partly because of that we saw strong growth in the Chinese market. Growth in the Americas was impacted by excess book returns due to erroneous over – ordering by one of our largest distributors in 2016 and 2017. Corrected for this effect, underlying total growth in North America was 6% and for total Brill was 3%. e-Book sales showed double digit growth in our core markets North America, Western Europe and Asia. The decline in Middle East revenue is due to the large deal we had in Lebanon in 2016.

Cost of goods sold, personnel costs, and other operating costs

Total Cost of goods sold increased by 13% from EUR 11.2 million to EUR 12.6 million mostly due to acquisitions, growth in product development costs and content digitization costs. In addition, we updated our amortization schedule to reflect a persistent, market driven shift in the phasing of the sales pattern of book titles, leading to accelerated, non-cash costs of EUR 0.3 million. Despite underlying volume growth of 10%, journal costs were flat versus 2017 because of typesetting savings. Overall, we saved EUR 0.4 million in cash typesetting spend versus 2016, an achievement that is already showing in our working capital and which will benefit profits in years to come.

Cost of goods sold was impacted by significant non-recurring items of EUR 0.4 million (2016: EUR 0.5million). These items partly originate from integration expenses made for digitizing content of acquired businesses, from additional royalty obligations, and from the one time component of the accelerated amortization of content and inventory mentioned above. Going forward we expect the growth of content amortization to abate because of savings in typesetting.

Personnel costs increased by EUR 1.5 million or 15% in 2017 (2016: 3%). The increase was caused by 13% acquisition effects, and 3% organic increases in salary costs (a total of changes in FTE, Collective Labor Agreement adjustments and mix).

Other operating costs increased by EUR 1.7 million or 24% mainly due to acquisitions. The organic increase of EUR 0.5 million or 8% is partly caused by operational expansion (office costs, IT, support cost) but also by non-recurring items of EUR 0.2 million which include acquisition related expenses, corporate governance related costs and increased audit fees.

Depreciation and amortization, and financing revenues and costs

At EUR 0.8 million, depreciation and amortization other than recognized in Cost of Goods Sold were 16% higher than 2016. Taking a modified approach versus the past, Brill now amortizes acquired publishing rights in line with estimated remaining useful life, in as far this useful life can reliably be estimated (e.g. in a purchase price allocation exercise). Refer Note 4 and 5 to the Consolidated Financial statements for details. This change caused most of the increase in amortization. As of 2018 we expect further increases in amortization of intangible assets given our current investment activities. Financing income reversed into financing cost because of foreign currency results amounting to EUR -0.2 million (2016: EUR +0.1 million).

Profit and profit per share

The above developments had an adverse impact on EBITDA, which ended at EUR 4.2 million, 8% below last year. As mentioned above, EBITDA was impacted by significant non-recurring items in revenue and cost which total EUR 0.8 million.

The lower EBITDA, higher amortization and adverse exchange rate results resulted in lower Net profit. Net profit amounted to 6% of revenue (2016: 9%).

The number of outstanding shares remained the same relative to 2016. Consequently, earnings per share amounted to EUR 1.21, down by 19% from 2016 (EPS 2016 EUR 1.49).

Operating Working capital and Cash flow

Excluding acquisition effects, inventories declined further because of our POD policy. Deferred income increased by EUR 0.3 million or 4%. As a result, we could again show a modest improvement in working capital. Tax payments were below last year because of a one-off effect in 2016 relating to settlement of our re-investment reserve.

Investments increased to EUR 7.1 million from 5.8 million last year, mostly due to acquisitions and capital investments. This effect was mitigated somewhat because of lower investments in content – partly a result of lower typesetting expenditure.

Return on Invested Capital

Return on Invested Capital (ROIC) declined to 11.1% versus 13.0% in 2016. Despite the high investment level, asset turnover improved due to the revenue growth and improvements in working capital. Operating margin however declined because of the addition of low NOPLAT margin revenue (S&F), one-off expense items and project activity.

Solvency and Liquidity

The balance sheet total (EUR 48.9 million) increased relative to 2016 (EUR 47.0 million). Equity amounted to EUR 27.4 million at the end of 2017 (EUR 27.5 million at the end of 2016). Solvency declined to 56.0% in 2017 (2016: 58.6%), so solvency remained at the high end of our target range of 40-60%.

Because of the high investment level, acquisitions and the lower results, mitigated somewhat by improved working capital, our liquidity at year end declined from EUR 6.3 million in 2016 to EUR 3.8 million in 2017.

Stock exchange listing

The Supervisory Board and the Management Board regularly evaluate whether the public listing is in the interest of the company. A stock exchange listing fosters well-spread ownership and a sustainable business model, which aligns well with Brill's long-term orientation. Because of the listing, Brill's holders of certificates of shares have the benefit of certain liquidity, which is of importance to smaller parties. Liquidity provider NIBC takes positions and thereby ensures continuous pricing, which to some extent mitigates excessively sharp price fluctuations. This is important because small trade volumes could otherwise lead to major price swings, causing an undesirable dynamic that may be completely unrelated to the actual course of events within Brill. In 2017, Brill again took part in various meetings with interested current and potential investors.

Dividend

Brill maintains a dividend policy which is aimed at steady or increasing dividend. Furthermore, we wish to adhere to our corporate solvency policy of 40-60%. In line herewith and supported by the strategic progress made in 2017 we will propose to the General Meeting of Shareholders that will be held on 17 May 2018, an all-cash ordinary dividend for 2017 of EUR 1.32 per share plus a one-time extraordinary dividend of EUR 3.00 per share. As a result, per year end 2018 our solvency should be in the range of 40-50%. This proposal reflects the strength of our balance sheet at the end of the year and our confidence in further improving results in the future.

Outlook

Brill's annual reports do not include numerical statements about future developments in terms of revenue and results. Our focus is on further development of the publishing program and getting the value out of our recent investments, whereas longer term we seek to expand and enhance the portfolio in terms of faster growing, recurring revenue streams.

In 2018, compared to 2017, we expect reduced levels of capital investment as we are finishing the largest programs from our strategic roadmap. Given the strength of our balance sheet and our prospects we have determined that an adjustment in our capital structure is appropriate; which is why we have decided to propose an additional dividend to the AGM and to negotiate an expanded financing package with our banks – to be implemented in 2018. We will continue to invest modest amounts in R&D relating to Digital Humanities, developing concepts that we can realistically market within foreseeable timeframes. As always, revenue will be balanced towards the end of the year and will partly depend on our success in realizing our planned publishing calendar and in landing a few larger orders. It should be noted that the staffing growth we experienced in 2017 and inflationary pressure on salary costs will have a significant impact on our staffing expense in 2018, even though we currently do not expect significant staff growth in 2018. We expect that the recent weakening of the US dollar will negatively impact our revenue in 2018 however the impact will be dampened somewhat by our hedging policy.

Overall, the company is cautiously optimistic about the future, especially about growing revenue and improving profits in 2018, our 335th year.

3. Human Resources

Organization

The key internal factor determining the success of the company is its personnel. It is therefore important to recruit and retain skilled and motivated professionals. Brill's policy, which is aimed at controlling the costs of personnel, optimizing work processes, providing clear job definition, and offering professional development, is closely monitored by management and the Supervisory Board, and measures are taken when necessary.

Brill is managed by its Management Board. Currently this Board exists of one Managing Director, who is also - in his capacity of acting Executive Vice President Publishing - responsible for Publishing, Business Development and HR policy. The Management Team includes the Managing Director, the EVP Sales & Marketing and the EVP Finance & Operations. Starting January 1 2018, the Management Team includes a newly appointed Chief Publishing Officer. Brill's subsidiaries have statutory directors who are locally based and who combine this role with their primary sales or publishing roles. They have regular meetings with the Management Team.

The Management Team meets every two weeks and focuses on setting the organization's objectives and coordinating publishing activities, sales and marketing, production, distribution, financing, administration, automation of work processes, management information, and human resources management.

Brill's Publishing Directors each head up a Publishing Unit. They report to the EVP Publishing, and as of January 1 2018, to the CPO. Publishing Directors and (Senior) Acquisitions Editors are responsible on a rotating basis for coordinating and optimizing cooperation with other departments.

Key Figures Human Resources

The workforce increased significantly relative to the preceding year and amounted to 164.9 FTEs (2016: 133.3 FTEs) at year end. This increase was anticipated and mainly the result of acquisitions (21 FTEs), expansion of our Asian presence and underlying growth in our publishing and sales & marketing teams. Average FTE was 160.5 versus 131.7 in 2016.

FTEs	Year end 2017	Year end 2016
Publishing Activities	65.9 [40.0%]	49.3 [37.0%]
Operations *	48.8 [29.6%]	43.8 [32.9%]
Sales & Marketing	35.8 [21.7%]	27.8 [20.9%]
Other **	14.4 [8.7%]	12.4 [9.3%]
Total	164.9 [100%]	133.3 [100%]

* Departments for desk editing, bibliographic support, electronic publishing technology, data management, production management, distribution and IT.

** General Management and the departments of Finance & Control, Legal, and Human Resources.

The split of FTE by country was as follows:

FTEs	Year end 2017	Year end 2016
The Netherlands	112.4	108.2
United States	19.8	19.1
Germany	23.9	1.0
Asia	5.8	2.0
Other	3.0	3.0
Total	164.9 [100%]	133.3 [100%]

In terms of the ratio of men to women, the share of women decreased in 2016 from 60.3% to 59.8%. The share of part-time workers showed a decrease and made up 34.6% (2016: 39.7%) of the workforce in 2017. Sickness leave showed an improvement from 4.2% in 2016 to 3.3% in 2017.

The age structure of the workforce changed relative to 2016 and was as follows:

AGE	2017	2016
20 - 29 years	9.5%	11.0%
30 - 39 years	27.9%	26.7%
40 - 49 years	26.8%	24.7%
50 - 59 years	24.0%	26.7%
Older than 60 years	11.7%	10.9%

The average age increased in the year under review from 44.8 at the end of 2016 to 45.1 at the end of 2017. The outflow of FTE in 2017 was 8.7%, whereas the inflow was 27.9%:

FTE's outflow	2017	2016
Retirement	1.0	1.7
Brill initiative		
Temporary contracts	6.6	3.1
Other	2.6	0.7
Own initiative		
Employment 0-2 years	2.0	0.7
Employment 2-5 years	0.9	1.0
Employment 5-10 years	2.9	2.0
Employment 10-15 years	0.0	0.0
Total FTE outflow	13.9	9.2
Total outflow in %	8.7%	7.0%

FTE's inflow	2017	2016
Acquisitions / divestment	20.7	0.0
Temporary position	3.0	
Permanent contracts	17.7	
Other		
Temporary contracts	12.2	8.1
Permanent contracts	12.0	5.8
Total FTE inflow	44.9	13.9
Total inflow in %	27.9%	10.5%

In 2017, Brill's pension plan continued to be operated by Pensioenfonds PGB. The pension plan is what is referred to as a collective defined contribution (CDC) plan including a conditional indexation scheme. The pension plan is considered a Defined Contribution pension plan for accounting and reporting purposes. No additional arrangements have been set up for senior management.

Report by the Works Council

The year 2017 made a good start with the addition of the new German colleagues in Paderborn. From the beginning the Works Council has been in touch with their German counterpart, the *Betriebsrat*, through Skype and in person. The council also had regular meetings with its Boston liaison. Although officially the council does not represent the colleagues abroad it values regularly speaking with them, as business in the other offices and in Leiden have a mutual impact.

Constitution of the Works Council

Elections were organized but not executed since there were five candidates for the five available positions. Maarten Frieswijk and Stijn Wieger van der Heide stepped down and Debbie de Wit (vice-chair) and Carmen

Loh joined as new members. Together with Tessel Jonquière (chair), Tom Weterings (secretary) and Wies van Leeuwen they constitute the Works Council May 2017–April 2019.

Requests for Advice
Several Requests for Advice were handled this year. In the first two months, two requests were finalized that had already been initialized in 2016, on the acquisition of Schöningh & Fink and the return to the public system (UWV) regarding the long-term disability insurance (*Beëindiging Eigenrisicodragerschap WGA*).

In June the council received the request to advice on the acquisition of Sense Publishers. The council stressed a concern about the workload involved with a take-over, given that the implementation of all Schöningh & Fink business was still underway, but was otherwise enthusiastic about the new venture.

In September the council advised positively on the succession plan for Herman Pabbruwe, who will retire in 2018. The Supervisory Board made a good case for the appointment of two statutory directors: a CEO and a CFO/COO. The council was especially pleased with the intention to also appoint a Chief Publishing Officer to complement the Executive Team.

Recurring
Recurring issues during the monthly meetings with Management were the corporate governance discussion with the shareholders, the challenges around the office renovation and regular updates on Triple-C, RSuite and the integration of acquired companies. At the top of the list were topics concerning HR, such as the finalization of the Working from Home pilot, changes within the job-grading system, the current and new Collective Labor Agreement, posting of the company regulations, vacancies and response to job openings. In general, concerns were expressed regarding the workload of the HR department and the ensuing delays.

Internal cooperation
As before, the council had an open and substantive working relationship with the CEO, Herman Pabbruwe, through monthly meetings. The council met the Supervisory Board in two regular meetings, in February and November, all in a spirit of confidence. In February the council used its enhanced right of recommendation for the re-appointment of Catherine Lucet as Supervisory Board member. Incidental meetings with HR director Ina de Lange and the EVPs Peter Coebergh and Olivier de Vlam, as well as with some of the project leaders of the major projects under discussion, were constructive and pleasant.

The future
A topic that is high on the 2018 agenda is the new General Data Protection Regulation. The council looks forward to its cooperation with Herman Pabbruwe during his final months in office, but also to meeting with the new CEO and Executive Committee as of May, in order to continue the pleasant cooperation.

4. Corporate Strategy

Mission
Brill's mission is to be a leading international academic publisher in the humanities and social sciences, international law, biology and natural history. Through its mission, Brill meets a need for multimedia information amongst specialist academic target groups and markets. Providing quality service to authors and researchers is the core business. To achieve its mission, the company must grow consistently, mainly by increasing its market share in the fields in which it is active as well as in adjacent niches. The overriding objective is to maximize Brill's value creating potential for all stakeholders, including the global community that provides Brill its license to operate.

Strategy
To achieve Brill's mission, the corporate strategy centers around three goals:

- *Expand market position*
  We build on our leading position as the publisher of choice for many academic researchers in the Humanities, Social Sciences and International Law. Additionally, we aim to enter adjacent segments where Brill's key assets (reputation, distribution, infrastructure) can be leveraged. These goals could be achieved organically or through acquisition. Adjacent areas which seem likely for development would include those where Social Sciences and Natural and Life Sciences have natural touching points with subjects in which we are strong traditionally such as language, philosophy and ethics, religion and history. Brill actively explores acquisition opportunities based on clear priority setting. Furthermore, we will expand the formats in which we publish – for example in digital humanities – and more actively manage the business models offered.
- *Develop market presence*
  We are investing in our marketing and sales execution capability to be closer to our client and achieve improved market coverage. This entails expanding the sales force, notably in the Asian and US markets but also enhancing our communications to raise awareness of the depth and breadth of our portfolio. Communication and sales efforts will be more concentrated around the signature titles that define Brill's reputation. Digital marketing and social media are increasingly employed to improve efficiency and effectiveness of our marketing operation.
- *Invest in Operations*
  We continue to invest Brill's digital business capabilities to facilitate value creation. Strategy-driven roadmaps for investment are in place for key business applications used in the business, for our content management process and for our online publishing platforms. We support our operations with standard software applications that are widely used in the business and which are provided by reputable partners, such as Klopotek, RSuite, Pubfactory and Highwire. IT operations are structured to optimize risk and efficiency through a combination of on-premise and cloud models, the balance of which is permanently reassessed.

We believe that following through on these strategic tenets during the timeline of the plan will enable us to operate within our objective EBITDA margin range of 15-20% and achieve a long-term average organic growth slightly more than the market growth, with a return on invested capital showing material headroom to our weighted average cost of capital.

5. Corporate Sustainability

Brill's Corporate Sustainability policy plays a vital role in the value creation process. Brill focuses on two areas:

- A leading or participating role in areas where Brill's core capabilities can be leveraged to further the development of the *global scholarly community*
- Permanent improvement in those areas that promote general *corporate responsibility*

Develop global scholarly community

As an independent publisher, Brill strives to make a constructive contribution to the creation of an (equally) accessible free and open information society. The demand for reliable information that is scrutinized in terms of quality and objectivity is very high. Because the company operates at its own risk and expense, it does not have to answer to any government or organization for its decision to publish or refrain from publishing a given work. Publishing practices and products are assessed by actively seeking the opinions of globally highly-esteemed researchers (peer review) and internationally active librarians (library advisory committees) and researchers (peer review).

Brill's sustainability policy also manifests itself in the company's Developing Countries Program. Brill not only actively participates in existing programs, but also takes initiatives that are developed in cooperation with professional publishers and international organizations. Examples in this regard are: Research4Life, INASP, Association of Commonwealth Universities, and Publishers for Development. As part of Research4Life Brill is currently taking the lead in setting up a new program focusing on International Law and dubbed: 'Global Online Access to Legal Information' (GOALI). This is done in close cooperation with academic libraries, such as Yale and Cornell Law School Libraries, the Library of the International Labour Organisation (ILO) in Geneva as the lead UN entity, and other academic publishers and key stakeholders.

As part of its research capacity building strategy, Brill has an Adopt-a-Library program in place through which it annually donates collections of books to libraries and universities in developing countries. These donations are supported by workshops for academics and librarians that focus on how faculty can increase the impact of their research by publishing nationally and internationally and how to make the best use of limited resources. Such workshops are given throughout the year by Brill publishers as part of research capacity building. Brill's endeavors in this context tie in with existing initiatives, such as Research4Life and INASP's Author Aid, an online mentoring system of international academics and researchers that promotes coaching and the exchange of knowledge between developed and developing countries in a very practical and effective manner. To advance accessibility and distribution, Brill offers discounts on its Open Access fees to academics and scientists in developing countries as part of its Brill Open Program.

As a well-established international company with a longstanding history, Brill attaches great importance to its historic reputation in the Netherlands and beyond. The city of Leiden and its university deserve a special mention in this regard. The Brill Fellowship available at the Scaliger Institute, makes it possible for researchers to study the special collections of Leiden University's library and is just one example of the way in which the company manifests its loyalty to the city and its university. Brill also contributes to Leiden's annual VeerStichting symposium and fosters and maintains good relations with Dutch heritage institutes. The company has granted corporate sponsorship to the Siebold Museum (Japan Studies) and the newly re-opened Rijksmuseum Boerhaave (History of Science), both in Leiden.

Actively contributing to these initiatives supports the future development of the global scholarly community and Brill's network within that community. Therefore, we strongly believe that an active policy in this regard is in the interest of all stakeholders.

Corporate responsibility
As a reputable company with a long history, Brill takes its responsibilities as a corporation to heart. The company strives to be reliable, honest, predictable, and cooperative. Creating value and long-term relationships with authors and users are key policy objectives. Authors can be sure that their books and articles will be easy to find and always remain available. Brill uses the services of internationally preferred suppliers selected based on price and quality. In addition, our print suppliers have Forest Stewardship Council (FSC) certification. The universal 'Brill' typeface, the use of which saves time and money, was developed as an efficient and therefore paper-friendly font family. Brill's vendor policy contains unequivocal provisions pertaining to social conditions (the exclusion of child labor, for example) and the substances and materials to be used. Brill's General Business Principles are clear about our values and their impact on the conduct of our business. Brill aims to be a reliable, responsible and attractive employer (refer Value Creation at Brill).

To formalize its commitment to sustainability, Brill joined the UN Global Compact in 2016, subscribing to its Ten Principles of doing Sustainable Business in an increasingly changing global world. It is the world's largest Corporate Sustainability initiative that calls on companies to align their strategies and operations with universal principles on human rights, labor, environment, and anti-corruption. In 2017 Brill submitted its first update report to the UN.

Brill's tax policy is aimed at achieving an efficient tax structure while paying fair amounts due in the constituencies where it does business. The transfer pricing arrangements put in place within the group are aimed at being sustainable within the context of the current OECD initiatives and concerns which have emerged in the global community.

6. Responsibility Statement

The Managing Director of Koninklijke Brill NV is responsible for the preparation of the financial statements in accordance with IFRS as adopted by the European Union and the provisions of Part 9 Book 2 of the Dutch civil Code. In addition, the Managing Director is responsible for the preparation of the Director's Report which is included in the Annual Report 2017.

In the Annual Report, the Managing Director endeavors to present a true and fair view of the financial position of the Group at the balance sheet date and the development of the Group in the year under review. In the section Risk Management, management identified the main risks that are currently known to management which could affect the achievement of Brill's strategic objectives or which could lead to misstatements in the financial statements, as well as the measures implemented to manage these risks. These measures can provide reasonable but not absolute assurance against material losses or material errors.

As required by the provisions of 1.4.3 of the Corporate Governance code and section 5.25c par 2c of the Dutch Act on financial supervision, the Managing Director confirms that to his knowledge:

(Statement according Corporate Governance Code)

- the Annual report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

(Statement according 5.25c par c2)

- the 2017 financial statements give a true and fair view of the assets and liabilities, the financial position, and the profit or loss of Brill and the companies jointly included in the consolidation; and;
- the 2017 Annual Report likewise gives a true and fair view of Brill's position and the position of its affiliated companies on the balance sheet date, as well as of the course of events during the financial year under review;
- furthermore, the Annual Report describes the principal risks that Brill faces.

Leiden, April 4, 2018

Herman A. Pabbruwe
Managing Director

FINANCIAL STATEMENTS FOR THE YEAR 2017

CONSOLIDATED FINANCIAL STATEMENTS 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, BEFORE APPROPRIATION OF PROFIT

In thousands of euro's

	31 December 2017	31 December 2016*)
ASSETS		
Non - current assets		
Tangible fixed assets [4]	488	303
Intangible fixed assets [5]	31,574	29,186
Financial assets	12	0
	32,074	29,489
Current assets		
Inventories [7]	3,236	3,045
Trade and other receivables [8]	9,154	8,002
Income tax to be received	334	34
Derivative financial instruments [13]	346	117
Cash and cash equivalents [9]	3,787	6,304
	16,857	17,502
Total assets	48,931	46,991
EQUITY AND LIABILITIES		
Equity attributable to owners of Koninklijke Brill NV		
Share capital [10]	1,125	1,125
Share premium	343	343
Retained earnings	23,900	23,577
Other reserves [10]	-226	-308
Undistributed profit	2,260	2,797
	27,402	27,534
Non – current liabilities		
Provisions [12b]	45	0
Deferred tax liabilities [6]	3,775	3,693
	3,820	3,693
Current liabilities		
Trade and other payables [12a]	8,787	6,789
Deferred income	8,713	8,439
Provisions [12b]	100	0
Derivative financial instruments [13]	105	422
Income tax to be paid	4	114
	17,709	15,764
Total liabilities	48,931	46,991

*) 2016 restated for reclassification from inventories to intangible assets, refer Note 5.

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of euro's

	2017	2016
Gross profit		
Revenue [15]	36,394	32,177
Cost of goods sold [16]	-12,551	-11,158
	23,843	**21,019**
Expenses [16]		
Selling and distribution expenses	-6,476	-5,745
General and administrative expenses	-14,052	-11,562
Operating profit	**3,315**	**3,712**
Finance income [17]	19	147
Finance expenses [17]	-269	-46
Profit before income tax	**3,066**	**3,813**
Income tax expense [6]	-806	-1,016
Profit attributable to shareholders of Koninklijke Brill NV	**2,260**	**2,797**
Other comprehensive (expense) income – items that might be reclassified to future profit or loss statements		
Exchange rate differences in translation of foreign operations [10]	-116	-24
Cash flow hedges [10]	263	-108
	147	-132
Income tax relating to these items	-66	27
	81	-105
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV	**2,341**	**2,692**
Earnings per share (EPS) [18]		
Basic and diluted earnings per share attributable to shareholders of Koninklijke Brill NV	**1.21**	1.49

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of euro's

	2017		2016*)	
Cash flow from operating activities				
Profit before income tax	3,066		3,813	
Adjustments for				
Amortization and Depreciation fixed assets	962		861	
Amortization Content [5]	3,461		3,148	
Finance income – net	250		-102	
Loss on divestment	-		217	
Change in operating assets and liabilities				
Change in working capital	554		1,520	
Change in provisions	0		-104	
Cash generated from operations	8,293		9,353	
Interest paid	-28		-34	
Income tax paid	-1,222		-1,494	
Net cash flow from operating activities		7,043		7,825
Cash flows from investing activities				
Investment in tangible fixed assets [4]	-359		-71	
Investment in intangible fixed assets (non-content) [5]	-1,671		-976	
Investment in Content	-3,090		-3,465	
Payments for acquisitions, net of cash acquired [3]	-1,866		-95	
Payments for acquisitions relating to other periods [8]	-100		-890	
Net cash flow from investing activities		-7,086		-5,496
Cash flow from financing activities				
Dividend paid to company shareholders [19]	-2,474		-2,324	
Net cash flow from financing activities		-2,474		-2,324
Net cash flow		-2,517		5
Cash and cash equivalents as per January 1st		6,304		6,299
Net cash flow		-2,517		5
Cash and cash equivalents as per December 31st [9]		3,787		6,304

*) 2016 restated for reclassification from inventories to intangible assets, refer Note 5

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

In thousands of euro's, as per 31 December

	Share capital	Share premium	Retained earnings	Currency Translation Reserve [10]	Currency Hedge Reserve [10]	Undistributed Profit	Total equity
Balance as per January 1st 2016	1,125	343	23,569	-123	-80	2,332	27,166
Total comprehensive income for the period							
Profit for the year	0	0	0	0	0	2,797	2,797
Other comprehensive income	0	0	0	-24	-81	0	-105
Total comprehensive income for the period	0	0	0	-24	-81	2,797	2,692
Total contributions by and distribution to owners							
Dividends paid over prior year	0	0	0	0	0	-2,324	-2,324
Retained earnings prior year	0	0	8	0	0	-8	0
Total contributions by and distribution to owners	0	0	8	0	0	-2,332	-2,324
Balance as per December 31st, 2016	1,125	343	23,577	-147	-161	2,797	27,534
Total comprehensive income for the period							
Profit for the year	0	0	0	0	0	2,260	2,260
Other comprehensive income	0	0	0	-116	197	0	81
Total comprehensive income for the period	0	0	0	-116	197	2,260	2,341
Total contributions by and distribution to owners							
Dividends paid over prior year	0	0	0	0	0	-2,474	-2,474
Retained earnings prior year	0	0	323	0	0	-323	0
Total contributions by and distribution to owners	0	0	323	0	0	-2,797	-2,474
Balance as per December 31st, 2017	1,125	343	23,900	-263	36	2,260	27,402

GENERAL INFORMATION

1. Reporting entity

Koninklijke Brill NV (together with its subsidiaries referred to as 'Brill' or the 'Group') is a corporation established and based in the Netherlands at Plantijnstraat 2, 2321 JC in Leiden. Brill's shares are quoted on the Euronext Amsterdam. This report contains a description of Brill's activities in the Management Report, section 1 General report. These financial statements were authorized for issue by decision made on 4 April 2018, by Brill's Supervisory Board and Managing Director.

2. Basis of preparation of the Financial Statements

2.1 Basis of consolidation

The consolidated financial statements contain the financial statements for Brill and its subsidiaries as per December 31st, 2017. The financial statements of Brill's subsidiaries have been prepared for the same period as Brill's, using consistent standards of accounting. Note 21 to the consolidated financial statements contains information on Brill's subsidiaries.

The consolidated financial statements of Koninklijke Brill NV have been prepared in accordance with IFRS as endorsed by the EU and the statutory provisions of Part 9, book 2, of the Dutch Civil Code.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's and the group's accounting policies. The areas involving more judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in paragraph 2.6.

All balances, transactions, cost and income within the Group and all profits and losses originating from intragroup transactions are eliminated completely. Subsidiaries are consolidated as of the date of acquisition meaning the date at which Brill obtained control over the acquired business. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power over the entity. Subsidiaries continue to be consolidated until the moment Brill loses control over the financial and operating policies, generally with shareholdings of less than 50%.

2.2 Business combinations

Business combinations are identified when the Group obtains control over an integrated set of assets and activities that is capable of being conducted and managed for providing economic benefits to the Group. In general, before qualifying as business combinations, the acquired business will need to meet the test of incorporating demonstrable inputs (for example intellectual property rights, customer groups, author networks), processes (such as editorial activities or marketing and selling activities) and outputs (in most cases, revenue).

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. When a business combination is achieved in stages, the Group's previously held equity interest in the acquired entity is re-measured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in financing results.

The Group measures goodwill at the acquisition date as the sum of the fair value of the consideration transferred and the recognized amount of any non-controlling interests in the acquired business, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed (including any publishing rights that have been identified). If the business is acquired in stages, the fair value of the existing equity interest in the acquired business is also included in the determination of goodwill. When the excess is negative, a bargain purchase is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Cost related to business combinations, other than those associated with the cost of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable (like earn-out arrangements) is recognized at fair value at the acquisition date.

2.3 Basis of measurement and currencies used
Brill's consolidated financial statements have been prepared based on historic cost price, except for the financial derivatives which have been recognized at fair value. The functional and reporting currency is the euro, and all amounts have been rounded to thousands, except where noted differently.

2.4 Changes in the basis of preparation of the Financial statements adopted on 1 January 2017
On 1 January 2017 Brill adopted several new accounting policies to comply with amendments to IFRS. The accounting pronouncements, which are not considered by Brill as significant on adoption, are:

- IAS 7 Disclosure initiatives
- IAS 12 Recognition of deferred tax assets for unrealized losses
- IFRS 12 Disclosure of interests in other entities

The financial statements are presented in accordance with the new standards above, which do not have a material impact on the consolidated results, financial position or cash flows.

Pursuant to the provisions of IAS 8.29 and effective 1 January 2017, Brill changed its accounting policy regarding the treatment of capitalized product development costs ("Content"). Until 2016, Content was accounted for as an element of Inventory, in line with the provisions of IAS 2. Brill management holds that Content meets the criteria for treatment under IAS 38 (Intangible Assets) and that changing the treatment serves the user of these financial statements better by reflecting that Content does not reflect items held for sale but rather (long-term) assets that Brill uses to generate items for selling (e.g. books and licenses to e-books). The amortization pattern of Content is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset. In most cases, the expected pattern leads to a diminishing balance amortization pattern.

The change represents a reclassification and does not lead to any impact on the financial statements, other than an increase of fixed assets and a decrease of current assets. In line with this change, an amount of EUR 9,818 thousand was reclassed in 2016 from Inventory to Content. For details, refer to the balance sheet and the notes thereto.

2.5 Future changes in the basis of preparation of the Financial statements
The following pronouncements which are potentially relevant to Brill have been issued by the IASB and are effective for annual periods beginning on or after 1 January 2018. Except when noted otherwise the company does not expect the impact of these policies to be material. Brill intends to adopt each standard as of its mandatory effective date.

- IFRS 2 Classification and measurements of share-based payment transactions - effective for annual periods beginning on or after 1 January 2018
  The impact of IFRS 2 is expected to be immaterial since this type of transaction is not used at Brill.
- IFRS 9 Financial instruments – effective for annual periods beginning on or after 1 January 2018
  Further information is given below
- IFRS 15 Revenue from contracts with customers – effective for annual periods beginning on or after 1 January 2018
  Further information is given below
- IFRS 16 Leases – effective for annual periods beginning on or after 1 January 2019
  The impact of IFRS 16 is that some lease contracts will have to be presented as a liability and the lease object as an asset. This will lead to an increase of the total assets and liabilities. Initial research shows that the number of contracts involved for Brill are very limited as Brill only leases cars and buildings. The effect on the profit and loss will merely be presentational in nature. A movement will occur from operating expenses to interest- and depreciation expenses. Furthermore, a movement in the cash flow statement will occur from operational cash flows to financing cash flows.
- IAS40 Transfer of investment property - effective for periods beginning on or after 1 January 2018
  The impact of IAS 40 is expected to be immaterial since Brill does not have investment properties.
- IFRIC22 Foreign currency transactions and advance considerations - effective for periods beginning on or after 1 January 2018 – the impact of IFRIC 22 is expected to be limited.
- IAS 28 Investment in associates and joint ventures - effective for periods beginning on or after 1 January 2019
- IFRIC 23 Uncertainty over income tax treatments - effective for periods beginning on or after 1 January 2019

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Koninklijke Brill plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, Koninklijke Brill has performed an impact assessment of the relevant aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to Koninklijke Brill in 2018 when IFRS 9 will be adopted. Koninklijke Brill expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. With regard to the impairment requirements Koninklijke Brill expects an increase in the loss allowance resulting in a negative impact on equity as discussed below.

(a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.
Trade receivables and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Koninklijke Brill analyzed the contractual

cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment
IFRS 9 requires to record expected credit losses on trade receivables, either on a 12-month or lifetime basis. Koninklijke Brill will apply the simplified approach and record lifetime expected losses on all trade receivables. As a result of the unsecured nature of the receivables, Koninklijke Brill expects that the loss allowance will increase by EUR 88 thousand.

(c) Hedge accounting
Koninklijke Brill determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

(d) Other adjustments
In addition to the adjustments described above, on adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in the associate and joint venture, will be adjusted as necessary. The exchange differences on translation of foreign operations will also be adjusted. The impact of IFRS 9 adoption is expected to be as follows:

In thousands of euros		
Assets	adjustment	
Trade and other receivables	(b)	-88
Total assets		-88

IFRS 15 Revenue from contracts with customers

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. Given the limited expected impact, Koninklijke Brill plans to adopt the new standard on the required effective date using the full retrospective method.

(a) Revenue
For contracts with customers in which the sale of printed publications is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on Koninklijke Brill's revenue and profit or loss. Koninklijke Brill expects the revenue recognition to occur at a point in time when control of the printed publication is transferred to the customer.
For contracts with customers in which the sale of online publications is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on Koninklijke Brill's revenue and profit or loss. Koninklijke Brill expects the revenue recognition to occur at the point in time when the customer obtains the right to use the licensed content. For the calendar year subscriptions to online databases the revenue recognition will be over time. The adoption of IFRS 15 is not expected to have any impact on the revenue and profit and loss because revenue recognition under IFRS 15 is equal to the revenue recognition Koninklijke Brill uses.

In preparing to adopt IFRS 15, Koninklijke Brill is considering the following:

(a) Variable consideration
Some contracts with customers provide a right of return. When a contract with a customer provides a right to return the good within the specified period, Koninklijke Brill currently accounts for the right of return as a provision when it is highly probable that a return will be received. This is similar to the expected value method under IFRS 15. Under the current accounting policy, the net amount of revenue minus cost of goods sold is recognized in the statement of financial position within Trade and other payables.

(b) Advances received from customers
Generally, Koninklijke Brill receives only short-term advances from its customers. They are presented as part of Trade and other payables. There are no significant financing components in the contracts.

(c) Principal versus agent considerations
Koninklijke Brill has a few contacts with business partners to provide sales, marketing and fulfilment services for the publication made and owned by these partners. Koninklijke Brill does not own the rights or the inventory of these publications. Koninklijke Brill bears credit risk on the sales transactions as it is obliged to pay the partners even if the customer defaults on a payment. Koninklijke Brill currently accounts for these contract as if it is an agent. IFRS 15 requires assessment of whether Koninklijke Brill controls a specified good or service before it is transferred to the customer. Koninklijke Brill has determined that it does not control the goods before they are transferred to customers, and hence, is an agent in these contracts. On transition to IFRS 15 this will not have any effect on the income statement or on the consolidated balance sheet.

(d) Presentation and disclosure requirements
The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and will increase the volume of disclosures required in Koninklijke Brill's financial statements. Many of the disclosure requirements in IFRS 15 are new and Koninklijke Brill has assessed that the impact of these disclosures requirements will be limited. The impact will be limited due to the fact that Koninklijke Brill does not have contracts that contain many significant judgements. Koninklijke Brill will include extended disclosures with respect to the significant judgement made when assessing the contracts where Koninklijke Brill has concluded that it acts as an agent. In addition, as required by IFRS 15, Koninklijke Brill will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017 Koninklijke Brill continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

In summary, the impact of IFRS 15 adoption on Brill's financial results is expected to be nil.

2.6 Accounting estimates, judgments and assumptions

Publishing rights, trade names and Goodwill are recognized at fair value from an acquisitions' purchase price allocation. Establishing fair value of these and other assets involves significant management estimates and judgments regarding the value and remaining useful life of intangible assets based on cash flow estimates and an estimated discount rate.

For the purchase price allocation analyses we used the multiple excess earnings method. We used historic sales pattern to forecast revenues from the titles in place at the date of acquisition for a period of 10 years. Commensurate portions of forecasted operating costs were allocated to establish full profitability. The discount rate used was the rate used by Brill at the corporate level at the end of 2016 (8.85% after tax). The resulting valuations were tested for plausibility in a weighted average rate of return analysis.

Where assets have indefinite lifetimes, they are tested for impairment annually. This requires an estimation of the business value of the cash generating units to which publishing rights and goodwill have been allocated. The procedure entails preparation of a cash flow forecast for each cash generating unit, determining a discount rate and calculating the discounted value of the estimated cash flows.
In the acquisition of Sense, a provisional purchase price allocation was prepared, involving significant, experience based management judgments regarding the allocation of the excess over fair value towards goodwill and intangible assets.

For details, refer to Notes 3 and 5 to the consolidated financial statements.

Prior to capitalization of other intangible assets, Brill prepares an estimate of the expected economic benefits. The largest asset class outside acquired intangibles is investments in content. Amortization of content related intangible assets is charged to the cost of goods sold line in the income statement. The amortization pattern of capitalized content is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset.

Deferred tax assets are only recorded when it is probable that fiscal losses and/or deductible temporary differences can be settled against future profits.

The provision for bad debts is established on an individual basis where possible. The provision for print book inventory is based on statistical analysis of historic income generation by comparable book titles (sales pattern).

The fair value of forward contracts, currency options and interest swaps is established based on the fair value of these instruments at balance date.

Prepaid royalties are evaluated annually to assess recoverability. Evaluation is done using the sales pattern of comparable book titles.

All estimates disclosed are genuinely critical, and all the critical judgements are disclosed.

2.7 Foreign exchange conversion

The Consolidated financial statements are prepared in euro, being the functional and reporting currency of the Group. Transactions in foreign currency are recorded at the exchange rate of the functional currency as per the transaction date. Monetary financial assets and liabilities in foreign currency are converted at the exchange rate of the functional currency at balance date. Any differences are recognized in the Income statement. Non-financial items in foreign currency valued at historic cost price in foreign currency are converted at the exchange rate prevailing at the date of the original transaction.

At balance date, the assets and liabilities of subsidiaries are converted to the euro at the exchange rate per balance date and the Income statement is converted at the weighted average exchange rate for the year. The exchange rate differences that originate from the conversion are recorded in the Comprehensive income statement. When divesting a foreign subsidiary, the cumulative balance of exchange rate differences recorded in Capital related to this subsidiary is transferred to the Income statement.

2.8 Tangible fixed assets

Tangible fixed assets are recorded at historic cost price, less cumulative depreciation and cumulative impairments (if applicable). Depreciation is linear according the useful life of the assets and taking in consideration any residual value. The book value of tangible fixed assets is tested for impairment when events or changes in circumstances indicate that the book value may not be realizable. The residual value and the useful life are reviewed annually and revised if necessary. A tangible fixed asset is derecognized from the

Balance sheet in case of divestment or if no future economic benefit is expected from either continued use or divestment. Any income or loss, resulting from the derecognition of the asset from the Balance sheet, is recognized in the Income statement at the moment of derecognition.

2.9 Intangible fixed assets

Intangible fixed assets are recognized at cost less accumulated amortization.

Publishing rights and goodwill resulting from business combinations are capitalized at the historic cost price. The business activities acquired have been selected to have strong components of long-lasting economic value that mutually reinforce each other such as brands or imprints, reputation, a product portfolio consisting of subscription or serial publications, or a backlist generating substantial revenue. However in some cases we determine, in the purchase price allocation process, that the publishing list requires significant continued development investment and that the titles purchased have a limited foreseeable economic useful life. In these cases we will proceed to linearly amortize intangible assets in line with their estimated economic useful life.

Acquired goodwill and publishing rights are allocated to Brill's Segments in accordance with their match to the respective publishing programs. We consider our Segments to be our lowest possible reportable level of cash generating units, since they form the principal managerial units within Brill, matching the key market segments in which Brill is active. Each Segment has separate management and is managed as a strategic business unit. The publishing programs contained within these segments have been selected for their potential to mutually reinforce each other's development. In 2017, S&F was added as a new segment.

Content cost of internally developed publications, primary sources and information systems are recognized as intangible fixed assets. These assets are valued at historic cost price or production cost. The amortization pattern of capitalized content is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset; this pattern is based on historical data and updated in case significant differences arise. In most cases, the expected pattern leads to a diminishing balance amortization pattern. Amortization is recognized under Cost of Goods Sold. The amortization of information systems is linear, based on the estimated useful life of the asset. If the recoverable amount of the asset is lower than book value, additional impairments are recorded. The assets' useful lives are reviewed annually and revised if required.

2.10 Impairment of Tangible and Intangible fixed assets

Goodwill and indefinite – lived intangible assets are tested annually for impairment at the level of the cash generating unit, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the impairment has been established, Brill prepares an estimation of the recoverable amount of the asset. The recoverable amount is the higher of the fair value of the asset after deduction of divestment expense and the value in use. If the book value is higher than the recoverable amount, the asset is assumed to be impaired and is marked down to the recoverable amount. In determining the value in use, estimated future cash flows related to the asset are discounted using a discount rate that considers current market evaluations of the time value of money and specific risks relating to Brill's business and financing structure. Losses related to impairments of assets related to Brill's continuing business are recognized in the Income statement.

At balance date, Brill assesses whether there are any indications that a recorded impairment loss from the past no longer exists or has diminished. If such indication exists, an estimate is prepared of the fair value. An impairment loss is only reversed if a change has occurred in the estimates used to establish the fair value of the asset since the recognition of the last impairment loss. If this is the case, the book value of the asset is increased to the fair value. The increased book value cannot be higher than the book value that would be recorded (net after any applicable depreciation or amortization) in case no prior impairment losses had been recorded. Such reversal is recognized in the Income statement. After such reversal, any applicable depreciation or amortization charges are adjusted to reflect the revised book value of the asset in order to properly allocate its adjusted book value to the future periods.

2.11 Inventory

The Inventory of finished products and publications in the editing stage is stated at the lower of cost and net realizable value, calculated as cost minus provision for obsolescence. Cost comprises direct materials and expenses including allocated labor. Allocated labor does not include any markup for overhead expenditure. Subsidies to publishing projects are only recorded when sufficient likelihood exists that these subsidies will be received and that all conditions precedent have been met.

The cost related to specific product formats (mostly printing and binding) are divided by the number of units produced and form the unit cost which is recorded in the Balance sheet in finished goods and charged to Cost of Goods Sold when a unit is sold. A provision for obsolescence is recorded at 100% of book value for Inventory for which no future sales are expected.

2.12 Trade and other receivables

Trade receivables are recorded at fair value and subsequently measured against amortized cost. Provisions for individual positions are recorded only if objective evidence suggests that Brill may be unable to collect the complete receivable position. Bad debts are written off entirely once the inability to collect has been established with certainty.

2.13 Cash and cash equivalents

Cash and cash equivalents in the Balance sheet (and the Consolidated statement of cash flows) consists of Bank, Cash and short-term deposits with a duration of three months or less.

2.14 Interest bearing debt, accounts payable and other short-term liabilities

Brill initially recognizes interest bearing debt, trade payables and other liabilities at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these positions are measured at amortized cost with any difference between cost and redemption value being recognized in the Income statement over the period of the loan, using the effective interest method.

2.15 Provisions

A provision is recognized if (i) Brill has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable that an outflow of economic resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation.

If it is to be expected that (part of) the liability will be reimbursed, for example as part of an insurance arrangement, the reimbursement is recorded as a Current asset at the time that adequate certainty about the reimbursement has been established. The cost related to recording the provision is recognized in the Income statement, after deduction of any reimbursements to be received. If the impact of the time value of money is material, provisions are recorded at discounted value.

2.16 Pensions and other post – employment arrangements

The pension arrangement for the Dutch employees is collectively arranged for in the Pensioenfonds voor Grafische Bedrijven (PGB). The pension plan continues to meet the criteria as set out in IAS 19 for a defined contribution arrangement. Pension arrangements for US employees are also classified as defined contribution arrangements. All pension premiums paid by Brill are recognized as expense in the Income statement.

2.17 Leases
Brill determines whether an arrangement contains a lease on the basis of the contents of the arrangement, weighing whether the execution of the arrangement depends on the usage of an asset or group of assets and whether the arrangement conveys the right to use the asset. Operating lease payments are recorded linearly as cost in the Income statement during the lease period.

2.18 Revenue recognition
Revenue is recognized when it has become likely that economic benefit will accrue to Brill and these benefits can accurately be determined. Revenue is then recognized at the fair value of the consideration received. This is deemed to occur at the moment that the material risk and benefit of ownership have been transferred to the buyer. The following specific recognition criteria apply:

Sale of books and journals
This scope includes revenue from the supply of books (including reference works) and journals to third parties. Book revenue from one-time sales is recognized after physical delivery or after making the product accessible to the customer online. Journal and other subscription fees are initially recorded as short term liability (Deferred Income) and only recorded as revenue when the criteria for recognition have been met; in this case release and delivery of a journal issue or other publication, at which time a proportionate amount of the prepaid subscription fee is recognized as revenue. Delivery is made in printed or digital form, where digital includes the right to access the delivered content through a database. Furthermore, this includes rights and licenses to the content.

Database access revenue
Database access revenue is recognized in line with the underlying contract. If the access rights are transferred indefinitely (Outright Purchase), the sale is recorded as revenue at the time of the sale. If the rights are transferred for a limited period, the sale is evenly recognized as revenue during the period of access. Discounts, sales tax and VAT are deducted from revenue.

2.19 Cost of Goods Sold
Upon completion of a work, total production costs are recorded in Inventory as Finished Product. Finished product (product format specific cost) is divided by the number of copies printed to arrive at the unit cost per title. At delivery, unit costs are charged to the Cost of Goods Sold. When a journal issue is delivered, its costs are recorded directly in the Cost of Goods Sold. Cost for a journal issue contains direct production expenses, amortization of content, royalties and shipping costs.

Cost of capitalized content are amortized over the expected useful life of the asset; amortization is recognized under Cost of Goods Sold.

2.20 Interest Income
Income is recognized when the interest accrues according to the effective interest method, meaning the interest at rate which, when discounting the future cash flows over the expected lifetime of the instrument, the discounted value equals the net book value of the financial asset.

2.21 Cash flow statement
Cash flow from operating activities
Cash flows from operating activities are calculated by the indirect method by adjusting the profit from operating activities for non-cash flows and autonomous movements in consolidated working capital. Operating cash flow also includes the costs for financing of operating activities and income tax paid on all activities.

Cash flow from investment activities
Cash flows from investing activities are those arising from net capital expenditure and from acquisition and sale of business or publication rights. Cash and cash equivalent available at the time of acquisition or sale are deducted from the related payments or proceeds.

Cash flows from financing activities
Cash flows from financing activities comprise the cash receipts and payments from dividend and debt instruments.

2.22 Subsidies
Brill, also through its German subsidiary, frequently receives project, program or generic subsidies from private or public funding bodies. These funding bodies generally aim to support scholarly communication, often in the form of a print cost subsidy or a general cost subsidy. A subsidy is fully allocated to the publishing project for which the subsidy was granted, and included in (offset against) the development cost capitalized for the project. The excess of subsidies over development cost is presented under other payables, since these represent a potential obligation until the moment of publication. At launch of the publication, the net amount of development costs and subsidies is included in the Inventory and expensed accordingly.

2.23 Taxation
Tax liabilities and receivables
Tax owed or receivable for the current and previous periods is measured according to the amount that is estimated to be paid to or received from the tax authorities. The taxation is measured according to the prevailing legal rates and legislation.

Deferred taxation
A deferred tax asset or liability is recognized for temporary differences as per balance date between the tax book value of assets and liabilities and their value in these financial statements. Deferred tax assets are recorded for all temporary differences in so far as it is likely that there will be a taxable income against which the temporary difference can be offset. Deferred tax assets and liabilities are recorded for all taxable temporary differences except when:

- the deferred tax asset results from an initial recognition of a claim or liability in a transaction which is not a business combination and which, at the moment of the transaction, has no impact on the profit before tax or the taxable income, and / or;
- the deferred tax asset results from an initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and which, at the moment of the transaction, has no impact on the profit before tax or the taxable income, and;
- in relation to temporary differences relating to investments in subsidiaries and joint venture interests, when the timing of settlement can be determined individually and when it is likely that the temporary difference will not be settled in the near future.

Deferred tax assets and liabilities are measured at the tax rates which are expected to prevail during the period in which the claim is materialized or the liability is settled, based on legally determined rates and applicable tax law. Deferred tax assets and liabilities are netted if there is a legal right to net claims and liabilities, and if the deferred tax relates to the same taxable entity, the same tax authority and the same period.

Sales tax and value added tax
Revenue, cost and assets are recorded after deduction of sales tax and value added tax. The net tax amount to be claimed or paid is recorded under payables or receivables in the Balance sheet.

2.24 Financial instruments and hedging

Brill uses financial derivative instruments such as futures, options and interest swaps to manage risks related to foreign currencies and interest. If used, these financial derivatives are recorded, at fair value, as an asset if the value is positive and as a liability if it is negative.

The fair value of currency future sales contracts is determined according to the market value of comparable instruments. Hedge accounting is applied to forward contracts where these comply with the conditions for hedge accounting. At the moment of entering into the transaction, Brill registers the relationship between the hedging instrument and the hedged position, as well as the risk management objectives and assumptions. The effective portion of changes in fair value of the hedging instruments is recognized in Equity, after deduction of a reserve for deferred taxation. The amounts included in Equity are brought to the Income statement at the time that the underlying hedged position impacts the Income statement. When the instrument can no longer be classified as hedging instrument, or when the hedging instrument expires or is sold, the cumulative amounts remain in Equity until the expected transaction materializes.

If the transaction is not expected to materialize anymore, the amount is recognized in the Income statement. Hedging instruments which are insufficiently effective in achieving the hedge objective are not recognized through application of hedge accounting. Changes in value of non-effective contracts are recognized directly in the Income statement, under Financing cost.

3. Business combinations, acquisitions and divestments of publishing rights

The acquisition of the business activities of Schöningh & Fink was effective 1 January 2017. Schöningh & Fink is a German academic book publisher, offering a broad humanities oriented portfolio. Brill acquires tangible fixed assets, current assets and liabilities, publication rights, trade marks and contracts with business partners. In 2017, Schöningh & Fink contributed EUR 3.1 million revenues with EBITDA before group overhead charges of EUR 0.3 million.

The acquisition of 100% of the voting shares of Sense publishers BV is effective 1 July 2017. Sense is a specialist publisher in the field of educational sciences, an important field within the social sciences. Sense contributed revenues of EUR 0.4 million with EBITDA before group overhead charges of EUR 0.1 million.

The fair value of these business combinations is as follows:

	Carrying amount		Fair value adjustments		2017 Recognized values		
	S&F	Sense	S&F	Sense	S&F	Sense	Total
Consideration paid	1,146	1,526			1.146	1.526	2,672
Deferred / contingent consideration:							
Non – Current	0	0			0	0	0
Current	0	46			0	45	45
Cash & cash equivalents, financial fixed assets	-12	-2			-12	-2	-14
Total Consideration	**1,134**	**1,570**			**1,134**	**1,569**	**2,703**
Intangible assets [Note 5]	0	0	179	459	179	459	638
Other non- current assets	31	0	0	0	31	0	31
Inventories and Work in Progress	624	0	-158	0	466	0	466
Receivables	958	276	0	0	958	276	1,234
Deferred tax assets	0	0	38	0	38	0	38
Other current assets	13	5	0	0	13	5	18
Payables and other current liabilities	-517	-149	0	0	-517	-149	-665
Provisions	0	0	-145	0	-145	0	-145
Fair value of net identifiable assets	**1,110**	**133**	**-86**	**459**	**1,024**	**592**	**1,615**
Excess consideration over fair value	24	1,437	-24	-1,436	0	0	0
Goodwill [Note 5]			110	978	110	978	1,088
Total	**1,134**	**1,570**	**0**	**0**	**1,134**	**1,570**	**2,703**

The purchase price allocation for Schöningh and Fink was completed in 2017. The purchase price allocation of Sense has been prepared provisionally, due to time constraints and availability of information. The areas that Brill currently expects to change are goodwill and intangible assets. No fair value adjustments have been applied in the period. The purchase price of Sense includes a contingent liability for which we do not expect any cash outflow in the future and which was valued at zero in the purchase price allocation. The deferred portion of the acquisition price of Sense is dependent on the full year profit of Sense and will be settled in 2018. The provisions represent contingent liabilities assumed by Brill regarding VAT returns and retirement benefits.

In November, Brill acquired the business activities of mentis Verlag, in Germany effective 1 January 2018. Mentis is a small, reputable publisher specializing in philosophy. Brill acquires current assets and liabilities, publication rights, trade marks and contracts with business partners. The purchase price is EUR 200 thousand. Following signing, Brill paid EUR 100 thousand (recognized as prepayment in other receivables in note 8). The remainder will be paid in HY1 2018. Brill expects full year revenue and EBITDA contribution of EUR 0.2 million and EUR 0.0 million respectively.

In addition, Brill acquired the rights to certain publications, structured as purchases of intangible assets. These include the *Israel Journal of Ecology and Evolution, the Israel Journal of Plant Sciences, the International Encyclopedia of Church Law,* for a total consideration of EUR 99 thousand.

These other titles acquired enhance our journal portfolio and reference work portfolio. The acquisition of these businesses results from Brill's strategy to expand its market position within selected niches. Cash payments related to all business combinations and purchases of publishing rights were as follows:

Cash payments related to acquisitions	2017	2016
Amounts paid or to be paid	2,905	985
Paid in Prior year	-890	0
Cash and cash equivalents included in target	-2	0
Payments related to acquisitions prior years	19	0
Deferred portion of acquisition payments	-66	0
Net cash payments related to acquisitions	**1,966**	**985**
Payments related to acquisition next year	-100	-890
Net cash payments related to acquisitions in period	**1,866**	**95**

Acquisition-related costs of EUR 105 thousand are included in other expenses in the income statement and in operating cash flows in the statement of cash flows.
The intangible assets of Schöningh & Fink and Sense include publishing rights and trade names. The total amounts of intangible assets recognized in the balance sheet in respect of business combinations and acquisitions of assets were as follows:

	2017	2016
Business Combinations	638	0
Other	118	8
Total (Note 5)	756	8

As part of the acquisition accounting process, management separately identified and estimated the fair value of each asset described above. The assets that were valued in the purchase price allocation were appraised using the multiple excess earning method which involves significant estimates and judgments as disclosed in note 2.6. The publishing rights of S&F were tested for sensitivity to changes in after – tax WACC; a 1% in WACC results in a 12% decline of the after – tax value of the intangible assets. Given the similarity in methodology to be applied we expect a similar sensitivity in the intangible assets relating to Sense. An overview of all intangible assets is provided in Note 5.

The assets have an estimated remaining useful life of 5 years and will be amortized accordingly. The goodwill included in these transactions reflect the global (digital) distribution and product development opportunities that can be derived from the acquired businesses. In the case of Schöningh & Fink, amortization on the intangible assets is tax – deductible.

4. Tangible fixed assets

2017	Leasehold improvements	Other	Total
Book value as per January 1st, 2017	49	253	302
Acquisitions	0	31	31
Investment	168	191	359
Depreciation	-25	-176	-201
Exchange rate differences	0	-6	-6
Book value as per December 31st, 2017	**193**	**293**	**486**
January 1st, 2017			
Cost	673	2,915	3,588
Accumulated depreciation	-624	-2,662	-3,286
Net book amount	**49**	**253**	**302**
December 31st, 2017			
Cost	842	3,714	4,556
Accumulated depreciation	-649	-3,421	-4,070
Net book amount	**193**	**293**	**486**

2016	Leasehold improvements	Other	Total
Book value as per January 1st, 2016	61	375	436
Investment	0	70	70
Depreciation	-12	-194	-206
Exchange rate differences	0	2	2
Book value as per December 31st, 2016	**49**	**253**	**302**
January 1st, 2016			
Cost before disposal	674	7,073	7,747
Disposal of assets	0	-4,230	-4,230
Cost	673	2,843	3,517
Accumulated depreciation before disposal	-613	-6,698	-7,311
Accumulated depreciation of disposal	0	4,230	4,230
Accumulated depreciation	-613	-2,468	-3,081
Net book amount	**61**	**375**	**436**
December 31st, 2016			
Cost	673	2,915	3,588
Accumulated depreciation	-624	-2,662	-3,286
Net book amount	**49**	**253**	**302**

Estimated useful life of fixed assets is as follows: Leasehold improvements 10 years, other fixed assets (computer equipment, furniture and other equipment) between 3 and 10 years. The depreciation is part of the general and administrative expenses in the consolidated income statement (refer note 16). The disposal of assets includes fully depreciated assets that are no longer present at Brill. In 2017, Leasehold improvements include a renovation of the Leiden office and other includes mostly computer hardware.

5. Intangible fixed assets

2017	Publishing rights	Trade names and imprints	Licenses	Goodwill	Content WIP	Capitalized Content	Information Systems	Total
Book value as per January 1st, 2017	15,189	0	0	1,879	1,945	8,189	1,984	29,186
Acquisition	458	298	0	1,088	0	0	0	1,845
Investment	0	0	271	0	3,082	7	1,399	4,760
Transfer					-3,007	3,007		0
Amortization	-43	-39	-27	0	0	-3,461	-648	-4,217
Book value as per December 31st, 2017	**15,604**	**259**	**244**	**2,968**	**2,020**	7,743	**2,735**	**31,574**
January 1st, 2017								
Cost	15,189	0	0	1,879	1,945	34,063	9,736	62,812
Accumulated amortization	0	0	0	0	0	-25,874	-7,752	-33,626
Net book amount	**15,189**	**0**	**0**	**1,879**	**1,945**	8,189	**1,984**	**29,186**
December 31st, 2017								
Cost	15,647	298	271	2,968	2,020	37,078	11,135	69,417
Accumulated amortization	-43	-39	-27	0	0	-29,335	-8,399	-37,843
Net book amount	**15,604**	**259**	**244**	**2,968**	**2,020**	**7,743**	**2,735**	**31,574**

2016	Publishing rights	Trade names and imprints	Licenses	Goodwill	Content WIP	Capitalized Content	Information Systems	Total
Book value as per January 1st, 2016	15,181	0	0	1,879	0	0	1,664	18,724
Reclassification from stock	0			0	2,226	7,592	0	9,818
Acquisition	69			0	0	0	0	69
Investment	0			0	3,465	0	976	4,441
Transfer					-3,746	3,746		0
Divestment	-61			0	0	0	0	-61
Amortization	0			0	0	-3,148	-656	-3,804
Book value as per December 31st, 2016	**15,189**	0	0	**1,879**	**1,945**	**8,189**	**1,984**	**29,186**
January 1st, 2016								
Cost	15,181	0	0	1,879	0	0	8,760	25,820
Accumulated amortization	0			0			-7,096	-7,096
Net book amount	**15,181**	0	0	**1,879**	0	0	**1,664**	**18,724**
December 31st, 2016								
Cost	15,189	0	0	1,879	1,945	11,337	9,736	40,086
Accumulated amortization	0			0	0	-3,148	-7,752	-10,900
Net book amount	**15,189**	0	0	**1,879**	**1,945**	**8,189**	**1,984**	**29,186**

Capitalized content cost typically consists of costs for typesetting, illustrations, editing, translations and all other cost that relate to preparing content for publication. During 2017, management decided to reclassify capitalized content from Inventory to Intangible Assets (refer Notes 2.7). During 2017 we changed our estimate regarding the pattern of consumption of economic benefits embodied in these assets, with an impact on cost of goods sold of EUR 347 thousand.

Publishing rights, brands and goodwill are related to business combinations and acquisitions of publishing rights. As per ultimo 2017, net book value was EUR 18.8 million (2016: EUR 17.1 million). Intangible assets with a definite useful life are amortized in line with their expected useful life, if applicable. In 2017, an amount of EUR 82 thousand was recognized in the income statement for amortization of acquired intangible assets (2016: nil). At the end of each reporting period, Brill reviews any indication whether the CGU's (segments) that contain goodwill and intangible assets may be impaired. In addition, Brill carries out annual impairment tests by comparing the carrying amount of the CGU's to the recoverable amount.

The recoverable amount is determined by calculation of the CGU's value-in-use. The value-in-use is determined by discounting the CGU's future cash flows. The cash flow projections are based on actual operating results, and the budget and strategic plans in force at the time of making the analysis. Furthermore, the three-year projections in the strategic plans are extended to 10 years. Management believes that this is a term in which relevant market trends (most importantly scholarly publication output) can be reliably forecasted.

Cash flows are discounted using a pre-tax discount rate of 12.1% (2016: 11.5%) that reflects current market assessments of the time value of money and the risks specific to the assets. In determining its discount rate, Brill uses the following variables:

Variable for determining the weighted cost of capital	2017		2016
Risk free interest rate (in %)	0.94		0.85
Market debt premium (in %)	1.20		1.05
Market risk premium (in %)	6.50		6.50
Small Firm Premium (in %)	3.00		3.00
Leveraged Beta	1.00		0.94

Key assumptions applied to the net present value calculations relate to growth of revenue and development of the cost of goods sold. These assumptions are based on management estimates as included in the most current business plans. Revenue growth assumptions are based on an expected continuous growth in output of and demand for scientific research whereas cost estimates assume a shift from variable expense to fixed expense, increasing slower than revenue. The annual impairment test carried out in 2017 showed that the recoverable amount for all segments for intangible assets and goodwill exceeded their carrying amounts.
We also made an assessment whether a reasonably possible change in a key assumption would cause the carrying amount to exceed the recoverable amount.

	Applied terminal growth rate of cash flows (g)	Increase in discount rate which would trigger an impairment
ARC	0.8%	>5%
HIS	1.0%	>5%
LAW	0.7%	>3%
MIA	0.5%	>3%
S&F	0.5%	>5%

Sensitivity tests applied to the valuations show that the valuations are highly robust against material (negative) variances in the applied terminal growth rate.

Net book amounts by segment as per December 31 (refer note 15):

Segment	Acquired intangible assets		Goodwill		Total	
	2017	2016	2017	2016	2017	2016
LAW	10,414	10,391	788	787	11,202	11,178
MIA	3,459	3,002	1,321	342	4,780	3,344
HIS	829	955	345	345	1,298	1,300
ARC	1.017	841	405	405	1,469	1,246
S&F	143	-	110	-	253	-
Total	15,863	15,189	2,968	1,879	18,831	17,068

In addition to acquired intangible assets, Brill recognizes investments in information systems and internally developed content (capitalized product development costs). These assets are amortized in line with their expected useful life. In case of content, the estimation of remaining useful life is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset. In most cases, the expected pattern leads to a diminishing balance amortization pattern, which generally covers a period of 10 years. In 2017, our estimate of the expected pattern changed with an additional effect of EUR 347 thousand in Cost of Goods Sold. Amortization of content is expensed within the Cost of Goods Sold. In 2017, amortization expenses within Cost of Goods Sold were EUR 3,461 thousand (2016: EUR 3,148 thousand).

The impact of adjusting the consumption pattern of the capitalized content with minus 5% in the first year would lead to a decrease of 2017 reported amortization of EUR 172 thousand.

Information systems are usually amortized in between 3 and 5 years. In 2017, Amortization expenses for Information systems were EUR 648 thousand (2016: EUR 656 thousand). These expenses were recognized in the income statement under General and administrative expenses. In 2017, Brill incurred major investments in information systems, principally related to the build of a new online platform and the required back office integration. At year end 2017 Brill had no material outstanding commitments for the purchase or build of intangible assets.

6. Income tax expense

This note provides an analysis of Brill's income tax expense and Brill's deferred tax position.

	2017	2016
Income tax on continued operations		
- Current tax	754	948
- Deferred tax	52	68
Tax recognized in the consolidated income statement	806	1,016

Of the total tax charge of 806 thousand, 119 thousand (2016: 153 thousand) is due in other jurisdictions than the Netherlands.

The table below reconciles the effective tax rate and the calculation of tax according to local nominal Dutch tax rates as per December 31st, 2017 and 2016.

	2017	2016
Income before tax	3,066	3,813
Statutory Dutch income tax rate	20% - 25.0%	20% - 25.0%
Tax, at the nominal rate	754	941
- Effect of different tax rates outside the Netherlands	38	63
- Miscellaneous	15	12
Tax recognized in the consolidated income statement	806	1,016
Effective tax rate	26.3%	26.7%

Deferred taxation is itemized as follows:

2017	Intangible assets	Plant and equipment	Trade & other accrued expenses	Hedge contracts	Total
Net carrying amount as of 1 January, 2017	-3,825	90	42	0	-3,693
Acquired through business combinations	-54	0	92		38
Recognized in profit and loss	85	-77	-60		-52
Recognized in other comprehensive income	0			-66	-66
Effect of movement in foreign exchange rates	0	3	-5	0	-2
Net carrying amount as of 31 December, 2017	-3,794	16	69	-66	-3,775
2016					
Net carrying amount as of 1 January, 2016	-3,770	106	38		-3,626
Recognized in profit and loss	-55	-15	2		-68
Effect of movement in foreign exchange rates	0	-1	2		1
Net carrying amount as of 31 December, 2016	-3,825	90	42		-3,693

The deferred tax amount is for EUR 3,735 thousand non-current and for EUR 40 thousand current (recoverable within 12 months). Taxes due on hedge contracts with negative value are included in the tax accrual.

7. Inventories

Inventories	**December 31, 2017**	December 31, 2016*
Publications in development	291	331
Finished goods	2,945	2,714
	3,236	3.045

*restated for reclassification of content to intangible assets

The inventory of finished goods includes a provision for obsolescence of EUR 2,706 thousand (2016 EUR 2,268 thousand). During the year, the provision was increased by EUR 411 thousand (2016 by EUR 406 thousand). This amount was charged as an expense in the income statement. During 2017, Brill changed the expected consumption pattern (refer to Note 5), leading to a further addition to the provision for obsolescence of EUR 70k. The impact of adjusting the consumption pattern with minus 5% in the first year will lead to an increase of the provision for obsolescence of EUR 119 thousand.

Finished goods development details	2017	2016
December 31st prior year	2,714	3,246
Acquisition	759	
January 1st	3,473	3,246
Acquisition		
Addition from work in progress	1,177	682
Increase of provision for obsolescence (expensed)	-411	-406
Expensed in cost of goods sold	-1,294	-809
December 31st	2,945	2,714

8. Trade and other receivables

Trade and other receivables	December 31, 2017	December 31, 2016
Trade receivables	7,656	6,179
Less: provision for bad debts	-195	-201
Net trade receivables	7,461	5,978
Prepayment for acquisition	100	890
Other receivables	1,593	1,134
	9,154	8,002

Trade and other receivables are classified as current. Trade debts are non-interest bearing and have average payment terms of thirty to ninety days, depending of the country of residence of the customers. The provision for bad debt is determined on an individual basis. Note 14 contains a risk analysis.

Provision for bad debt details	2017	2016
January 1st	201	255
Provision recognized/released during the year	8	40
Receivables written off during the year as uncollectible	-10	-31
Amounts recovered during the year	-4	-63
December 31st	195	201

Aging of receivables	December 31, 2017	December 31, 2016
Payment not due	6,433	4,805
Payment due:		
0- 30 days	842	756
30-60 days	119	131
60-90 days	43	29
> 90 days	23	257
	7,461	5,978

9. Cash and cash equivalents

Cash and cash equivalents as per ultimo 2017 were EUR 3,787 thousand (ultimo 2016: EUR 6,304 thousand). Cash and cash equivalents not required for funding of the operations are converted in short-term bank deposits with variable rate, where possible. As per ultimo 2017 there were no short-term bank deposits.

10. Share capital and reserves

The number of ordinary shares with par value of EUR 0.60 per share, issued and paid, was 1,874,444 in 2017 (2016: 1,874,444). The number of authorized shares was 2,500,000 in 2017 (2016: 2,500,000). In 2017, shareholder capital was EUR 1,125 thousand (2016: EUR 1,125 thousand).

Stichting Luchtmans has been granted a call option that gives it the right, in the event of hostile action or imminent hostile action against the company, to purchase a number of cumulative preference shares equal to, at most, 100% of the shares and depositary receipts issued at the time at which the option is exercised less one share. When the option is exercised, only 25% of the total nominal amount must be paid. The exercise price is equal to the nominal value. Stichting Luchtmans and the company have agreed that the option may be exercised up to 100% of the issued capital if and as long as shares and depositary receipts are listed on the Euronext Amsterdam NV exchange.

Other reserves consist of a currency translation reserve (including forex differences resulting from the translation of the accounts of the foreign subsidiaries) and a currency hedge reserve (including the share in the increase or decrease of the cash flow hedge for which it has been established that it is effective). Breakdown is as follows:

Other reserves	Currency translation reserve	Currency hedge reserve	Total
January 1st, 2016	-123	-80	-203
Result revaluation	-24	174	150
Reclassification to profit & loss	0	-282	-282
Recognized in other comprehensive income	-24	-108	-132
Tax on revaluation result	0	27	27
Total mutation	-24	-81	
December 31st, 2016	-147	-161	-308
Result revaluation	-116	516	400
Reclassification to profit & loss	0	-253	-253
Recognized in other comprehensive income	-116	263	147
Tax on revaluation result	0	-66	-66
Total mutation	-116	197	81
December 31st, 2017	-263	36	-227

11. Interest bearing loans

At balance date, Brill had no bank loans or other interest-bearing liabilities. On December 31st, 2017 unused credit facilities of EUR 12.5 million were available (2016: EUR 12.5 million). The arrangement provides Brill with a facility of EUR 5 million current account facility and an additional EUR 7.5 million of current account facility specifically for the financing of acquisitions. The agreement is valid until cancellation. As a security for these bank loans – if and when applicable, Brill has pledged assets. The pledged assets consist of inventories and content for a book value of EUR 12.2 million (2016 EUR 13.2 million) and accounts receivable for a book value of EUR 6.0 million (2016 EUR 6.0 million) In addition, the covenants include two financial ratios:

Net debt/EBITDA ratio	**2017**	2016
Cash and cash equivalents	-3,787	-6,304
Interest bearing loans	0	0
Net debts	-3,787	-6,304
EBITDA (see note 23)	4,157	4,496
Net debt/EBITDA ratio (must be less than 2.5)	-0.91	-1.40

Debt service ratio	2017	2016*)
EBITDA (see note 23)	4,157	4,496
Income tax paid	-1,221	-1,494
Investment in tangible fixed assets	-359	-71
Investment in intangible fixed assets (non-product, non-acquisition)	-1,671	-976
Change in working capital	554	1,620
	1,460	3,575
Interest paid	28	34
Debt service ratio (must be higher than 1,1)	52	105

*) restated for fixed asset reclassification

In 2017, as in 2016, Brill performed well within the boundaries of its covenants.

12a Trade creditors and other payables

Trade creditors and other payables	December 31, 2017	December 31, 2016
Trade creditors	3,569	3,153
Other taxes and social securities	496	448
Accruals	2,669	1,808
Other payables	2,053	1,380
	8,787	6,789

Trade creditors are non-interest bearing and normally have a payment due date of less than 30 days. Taxes, social securities and other payables are settled during the year.

12b Provisions

	2017	2016
Provisions	145	-

The above provisions relate to the acquisition of Schöningh & Fink, where in the opening balance we recognized certain provisions related to contingent liabilities (refer Note 3).

13. Financial instruments

Brill transacts currency forward agreements and other financial instruments exclusively with counterparties with prime credit rating. Valuation of financial instruments is based on fair value, considering current and future developments in interest and currency rates. The value of the currency forwards at the end of the reporting period is attributable to our counterparty without any risk discount. Changes in credit rating of our counterparties had no effect on the evaluation of effectiveness of our financial instruments.

The fair value of our financial instruments is the amount that would be received when selling the asset or paid when ceding the liability in a regular transaction between market participants at valuation date. The fair value of cash, accounts payable and accounts receivable as well as other current assets and liabilities is near book value, mainly because of the short maturity.

Fair value	Book value		Fair value	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Financial assets				
Cash and cash equivalents	3,787	6,304	3,787	6,304
Trade and other receivables	9,154	8,002	9,154	8,002
Currency forward agreements	346	117	346	117
Financial liabilities				
Trade and other payables	-8,787	-6,789	-8,787	-6,789
Currency forward agreements	-105	-422	-105	-422

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2017 and 31 December 2016. The column 'net amount' shows the impact on the group's balance sheet if all offsetting rights were exercised.

	Effects of offsetting on balance sheet			Related amounts not offset	
2017	Gross amount	Offset in the balance sheet	Net presented in the balance sheet	Amount subject to master netting arrangements	Net amount
Financial assets					
Derivative financial instruments	346	0	346	-105	241
Total	**346**	0	**346**	**-105**	**241**
Financial liabilities					
Derivative financial instruments	105	0	105	-105	0
Total	105	0	105	-105	0
2016					
Financial Assets					
Derivative financial instruments	117	0	117	-117	0
Total	117	0	117	-117	0
Financial liabilities					
Derivative financial instruments	422	0	422	-117	305
Total	422	0	422	-117	305

Hedge accounting

For hedging, Brill uses synthetic and regular currency forward agreements. At the end of the reporting period the position of the forward agreements was:

Net forward position	Total amount contracts (in USD)		Fair value contracts (in EUR)	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Sell forwards	9,875	9,700	346	-422
Purchase forwards	-2,550	-2,390	-105	117
Net	7,325	7,310	241	-305

The purpose of the cash flow hedge is to shield the probable future sale and purchase of our US dollar cash flows against fluctuations in the exchange rate until the moment of occurrence of the cash flow. The future US dollar cash flows will occur within twelve months after the end of the reporting period. Results of sell forwards at 90 days before maturity are recognized in the income statement under the item net revenue. At maturity, the remainder of the results is recognized as financing results (revaluation of receivables). Results of the purchase forwards are recognized against the item to which the cash flow pertains, in the Cost of goods sold, Selling and distribution expenses or General operating expenses. Results of outstanding forwards will impact 2018 entirely. In 2017 an amount of EUR 5 thousand was recognized in the income statement for non-effectiveness (2016 EUR 1 thousand). From testing the forward agreements used for the cash flow hedge, the Group established that they are effective at the end of the reporting period.

Hierarchy in fair value

As per 31 December 2017, Brill held the below financial instruments, valued at fair value, by valuation method:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Fair value measurement of assets and liabilities	Currency forward agreements 31-12-2017	31-12-2016
Level 1	0	0
Level 2	241	-305
Level 3	0	0
Total	241	-305

Every year, at the end of the reporting period, Brill evaluates the hierarchical classification of regularly used financial instruments, based on the lowest level of the utilized variables that have a material impact on the instrument's fair value. Changes in the valuation of the currency forward agreements are recognized in comprehensive income.

14. Financial risk management

Foreign currency exchange risk

Brills functional and reporting currency is the euro. The US dollar is the only other currency relevant to Brill's business. In 2017, around 40% (2016: 41%) of invoiced sales originated from the United States. Normally, prices in US dollars are announced at the beginning of the year and are adjusted annually. In determining prices in US dollar, current exchange rate circumstances are considered. Since most expenses are in euro, Brill is net long in US dollars. Brill's policy is to hedge around 90% of the expected net incoming cash flow in US dollars for the next twelve months by using currency forward contracts or currency options. In addition, Brill attempts to limit currency risk by means of natural hedging, meaning entering in liabilities in US dollar to compensate receivables in US dollar. Furthermore, Brill hedges certain ongoing outgoing cash flow in US dollars to limit the impact of currency swings on the cost level. The net result is a limited currency risk. In 2017, Brill recognized a foreign exchange result of minus EUR 224 thousand (2016: 132 thousand).

The below table shows the impact of a change in exchange rate of the US dollar versus the euro on Brill's financial results:

Impact of a 5% increase of the U.S. dollar value versus the euro	2017	2016	**Impact of a 5% decrease of the U.S. dollar value versus the euro**	2017	2016
Net revenue	131	135	Net revenue	-119	-122
Gross profit	101	117	Gross profit	-92	-106
Net profit	149	165	Net profit	-135	-149
Equity	-517	-235	Equity	53	357

In determining the impact, Brill takes the current hedging contracts into account. The impact on Net profit is mainly caused by the change in valuation of assets and liabilities in US dollars. The impact on equity is mainly caused by changes in the valuation of the investment in the US subsidiary and the valuation of the cash flow hedge (refer note 2.24).

Interest rate risk
As per ultimo 2017, no long- or short-term bank credits or deposits were used. The risks of changes in interest rates on the profit and loss and equity are therefore nil. Brill's policy is to enter into interest rate swaps in case of a long-term borrowing, if it seems more likely than not that based on the interest rate expectations for the money and capital markets, the swap will cause the interest expenses to be lower.

Credit risk
The business of Brill is concentrated in Western Europe, the United States and Asia. Over 80% of Brill's sales are transacted via third parties, such as book distributors and journal subscription agents. Currently, a consolidation is ongoing in the trade market. Although the risk of insolvency of a trade customer is unchanged, this concentration does increase the potential impact of an insolvency. To control for this risk, Brill has taken out credit risk insurance on part of the credit risk with trade partners. For ongoing sales activity, Brill has access to relevant credit information. In addition, Brill's credit policy includes payment terms, credit limits, dunning policies and using factoring where applicable. Our cash flow is impacted by the payment behavior of our customers; therefore, compliance with payment terms is monitored closely. Our maximum exposure is limited to the amount of Trade Receivables in our statement of financial position at year end; however this amount is significantly limited by the application of credit insurance. Please refer to Note 8 for an assessment of credit quality.

In the journals business Brill runs almost no credit risk, because journal deliveries are made after receipt of payment by subscribers. It is in the interest of the publisher to deliver new issues to subscribers without interruption and for that reason, the publisher may, on an exception basis, deliver issues before payment has been received. A limited risk exists with regard to subscription fees paid by the customer to the subscription agent but not transferred yet to the publisher. Very limited risks exist relating the sale of online products because Brill can terminate access to the product at any time.

Periodically, Brill evaluates collectability of trade debtors not covered under credit insurance and based on this analysis, adjusts the provision for bad debts. Evaluation is carried out using the individual method, meaning that judgments about collectability are made by individual invoice. Objective judgment is formed on the basis of historic payment behavior of the trade debtor and information from third parties about the credit rating of the debtor. The maximum risk on trade and other receivables is equal to the total book value at balance date.

In 2017 the average number of Days Sales Outstanding for sales was 74 days (2016: 83 days). The Days Sales Outstanding calculation has been improved resulting in an adjusted days sales Outstanding for 2016.

Liquidity risk

Brill prepares quarterly evaluations of its liquidity position using a seasonal cash flow pattern in combination with expected changes in expenditure and income. Brill's policy is to ensure continuous availability of funds required through working capital management, ensuring availability of credit facilities or long term borrowings and by sustaining its ability to issue additional shares in order to finance measures that add structural value to the business. The below table shows the maturities of the Companies' financial liabilities.

	Balance amount	Maturity Immediate	< 3 months	3-12 months	1-5 year	> 5 year	Total
As per December 31st, 2017							
Trade and other payables	8,787	3,000	2,954	2,833	0	0	8,787
Currency forward receipts		0	-2,259	-4,249			-6,508
Currency forward payments		0	2,069	4,198	0	0	6,267
		3,000	**2,723**	**3,065**	0	0	**8,546**
As per December 31st, 2016							
Trade and other payables	6,789	3,428	2,087	1,274	0	0	6,789
Currency forward receipts		0	-1,839	-4,370			-6,209
Currency forward payments		0	1,992	4,522	0	0	6,514
		3,428	**2,240**	**1,426**	0	0	**7,094**

Capital management policy

The key components of capital managed by Brill are working capital and fixed tangible and intangible assets (collectively referred to as Invested Capital, refer to Note 23). Brill's financial policy is aimed at solid financing of Brill's growth objectives, where free cash flow should cover any applicable interest and redemption of long-term borrowing as well as cash dividends. Funding originates from either internal or external sources. Internal funding arises specifically from containing the growth of Invested Capital by attracting more subscription based business and reducing stock levels through printing on demand as well as pursuing policies that reduce fixed asset investment requirements, e.g. by using cloud versus on premise solutions. External funding originates from our standing credit facilities and maintaining access to capital markets through our investor relations policy. The policy assumes solvability of between 40 and 60% and adherence to the covenants relating to our credit facilities (refer to Note 11).

15. Segment information

Brill's management evaluates company performance from a business segment perspective, a product portfolio perspective as well as from a geographical perspective. Business segments (Publishing Units) are evaluated based on revenue, income and Net assets in use. Certain asset and liability classes are considered Corporate and are not allocated to business segments. Product types are evaluated based on revenue. Geographical areas are evaluated based on revenue.

Brill's publishing activities are segregated into five business segments, identified as Publishing Units. The aggregation of these segments has been made based on management considerations, the nature and subject areas of their publications as well as the class of researcher at whom the publications are targeted:

- HIS – History (including medieval, early modern and modern history, history of warfare, history of science, book history and history of cartography), American studies, Slavic and Eurasian Studies, social sciences and biology.
- LAW – International Law, Human Rights and Humanitarian Law and International Relations.
- MIA – Africa, Cultural studies, Language and Linguistics, Literature, Middle Eastern and Islamic studies and Asian studies, as well as the newly acquired business of Sense.
- ARC – Philosophy (including philosophy and ethics), Art, Religion and Bible studies, Theology, Jewish studies, Ancient Near East, Egyptology, Classical antiquity, Geek and Latin literature
- S&F – the business operation contained under Brill Deutschland, notably Schöningh & Fink – future additions in Germany may also be grouped into this unit, which is reported as a separate unit for management purposes

Brill management primarily uses EBITDA to assess the profitability performance of the business segments, and a measure of Net assets (Invested capital) to assess the capital requirement of each segment. EBITDA is calculated based on direct EBITDA contribution minus allocated group services and overhead costs.

Publishing Unit	LAW	MIA	HIS	ARC	**S&F**	**Total**
Revenue 2017	6,655	9,926	6,795	9,894	**3,124**	**36,394**
Revenue 2016	6,516	9,292	6,733	9,636	-	**32,177**
EBITDA 2017 (see note 23)	1,691	128	430	1,796	110	4,155
EBITDA 2016 (see note 23)	1,417	419	728	1,932	-	4,496
Invested capital 31-12-2017	11,721	6,326	2,498	1,583	805	**22,932**
Invested capital 31-12-2016	9,756	5,663	3,149	2,511	-	**21,080**

In 2017, most PU's but especially ARC showed satisfactory revenue growth. HIS started the year knowing that the Crustacean Society awarded the publication of its journal to another publisher. Also, the unit incurred some publication delays and saw diminished success of its new product. Note that MIA includes the newly acquired business of Sense. Deterioration of MIA profitability is partly due to growth in staff during the year, leading to higher allocated costs; MIA's gross result increased by 7%, in line with revenue growth and direct EBITDA contribution was flat versus last year.

Reconciliation assets	**31-12-2017**	**31-12-2016**
Invested capital	22,932	21,080
Adjustments		
Current Liabilities	17,758	15,764
Deferred Tax Liabilities	3,775	3,693
Income tax, net	334	34
Derivative financial instruments, net	346	117
Cash and cash equivalents	3,787	6,304
Total Assets	**48,932**	**46,991**

Product revenue segmentation is as follows:

Revenue by product type	2017	2016*)
Books	9,757	8,730
Journals *)	7,389	7,273
Primary sources	1,106	1.084
Digital revenue	18,252	17,086
Books	15,838	12,945
Journals*)	2,110	2,056
Primary sources	194	89
Offline revenue	18,142	15,091
Total	36,394	32,177

*) Note: 2016 adjusted to align with 2017 allocation of revenue between print and digital (EUR 220 thousand changed from digital to print). Management believes this alignment better reflects customers' choices between the revenue models on offer.

In 2017, there was no customer that accounted for more than 10% of consolidated revenues.

Brill measures revenue by region in accordance with its priorities and managerial structure in the marketing and sales organization. Geographical spread of revenue (according to the location of the customer) is:

Revenue by region	2017	2016
Asia & Oceania	4,573	4,078
Eastern Europe	394	474
Middle East & Africa	1,297	1,345
North America	13,694	13,276
Western Europe	16,326	12,899
Rest of World	110	104
	36,394	32,177

Asia showed double digit growth, both in print as well as in digital books. In North America and Europe, e-books showed double digit growth whereas print book revenue in North America was impacted by excess returns from a major distributor. The addition of Schöningh & Fink caused most of the increase in Western Europe. Excluding these effects, North America, as did Europe, showed a small decline in print book revenue in line with market trends.

The ownership of all intangible assets and most tangible assets lies in the Netherlands except for the assets of Schöningh & Fink whose ownership lies in Germany.

16. Expenses

Cost of goods sold contains the following cost types: technical production and shipping cost, cost of online products and platforms, amortization of intangible fixed assets, and royalties.

Cost of goods sold	2017	2016
Technical production costs, content and shipping cost	11,069	9,841
Royalties	1,482	1,317
	12,551	11,158

Reconciliation Selling, General and administrative with personnel cost and operating expenses	2017	2016
Selling and distribution expenses	6,476	5,735
General and administrative expenses	14,052	11,572
	20,528	17,307
Personnel cost	10,767	9,323
Operational expenses	8,921	7,200
Amortization of intangible assets (non-product related) [5]	639	518
Result on divestment of intangible assets [5]	0	61
Depreciation of tangible assets [4]	201	205
	20,528	17,307

Brill applies hedge accounting to expenses. Personnel cost contains an amount of EUR 20 thousand (2016 EUR minus 3 thousand) and Operational expenses contains an amount of EUR 2 thousand (2016 EUR minus EUR 2 thousand) as effect of hedge accounting.

Breakdown of personnel costs is as follows:

Personnel costs	2017	2016
Salaries	9,278	8,295
Social security payments	1,440	1,159
Defined contribution pension arrangement	1,024	705
Other defined contribution arrangements	268	367
	12,010	10,526
Booked to Work in progress	-1,243	-1,203
	10,767	9,323

Personnel costs booked to work in progress relates mostly to the internal desk editing team. This team constitutes about 16% of Brill's overall workforce. Desk editing writes time to products, which is then capitalized or expensed. In addition to internal staff, Brill uses vendor services for most of the editing and typesetting activities for its publications.

The average workforce amounted to an average of 160.5 FTEs (2016: 131.7 FTEs). The total workforce engaged on a full-time basis at year-end showed an increase of 31.6 FTEs from 133.3 to 164.9 FTEs. This increase was anticipated and mainly the result of the acquisitions (20.7) as well as growth in Publishing and Sales and Marketing (including Asia expansion).

At the end of 2017, 52.5 FTEs (2016: 25.2 FTEs) were working outside the Netherlands (from Brill's offices in Boston, Paderborn, Singapore and Beijing, as well as from home offices in the United Kingdom, Canada, Germany and Switzerland). In addition to the addition of staff in Germany, we expanded our presence in Asia (from 2.0 end of 2016 to 5.8 in 2017).

17. Finance income and expense

The interest rate received on our current account balance was 0% in 2017 (2016: 0%). Since hedge accounting applies for the financial derivatives in use at Brill, the below results all relate to currency based revaluation effects on current and fixed assets and liabilities.

Finance income	2017	2016
Interest received	19	16
Foreign exchange rate differences	0	132
	19	**147**

Finance expense	2017	2016
Interest paid	-45	-45
Foreign exchange rate differences	-224	-1
	-269	**-46**

18. Earnings per share

Earnings per share was calculated by dividing Net income attributable to shareholders by the weighted average number of outstanding ordinary shares. At balance date, no stock options, redeemable preferred shares or other convertible instruments were outstanding that might lead to future dilution of earnings per share. After balance date, no share transactions took place.

Earnings per share	2017	2016
Net income	2,260	2,797
Weighted average number of shares issued	1,874,444	1,874,444
Earnings per share attributable to shareholders of Koninklijke Brill NV (in EUR)	1.21	1.49

19. Dividend paid and proposed

Dividend	2017	2016
Dividend paid		
Dividend paid for 2015: EUR 1.24		2,324
Dividend paid for 2016: EUR 1.32	2,474	
Proposed dividend for 2017 (not included as a liability per December 31st 2017)		
Ordinary Dividend to be paid for 2017: EUR 1.32	2,474	
Exceptional Dividend to be paid for 2017: EUR 3.00	5,623	
Total dividend to be paid for 2017	8,097	
Profit distribution proposal 2017		
Ordinary dividend on ordinary shares	2,260	
Added to retained earnings	0	
Net profit	**2,260**	

20. Commitments

A rental agreement is in existence for our office located Plantijnstraat 2 in Leiden with duration until September 2023. A bank guarantee of EUR 115 thousand was issued in support of this agreement. Brill USA has a rental agreement for its office located on Liberty Square, Boston, MA with duration until February 2023. Brill Singapore has a rental agreement for its office located 31 Rochester Drive, Singapore with duration until May 2019. Brill's lease agreements in Paderborn and Beijing are short term in nature.

Furthermore, Brill has operational leasing contracts for company cars with duration of four years. Financial liabilities for leasing and rent are:

As per December 31st, 2017	2018	2019	2020	2021	2022	>2022
Company cars	70	41	13	8	0	0
Rent	639	547	547	557	568	320
	710	588	560	565	568	320
As per December 31st, 2016	2017	2018	2019	2020	2021	>2021
Company cars	60	53	28	5	0	0
Rent	562	562	572	583	594	917
	622	**615**	**600**	**588**	**594**	**917**

21. Information concerning related parties

Subsidiaries

These consolidated financial statements contain the financial statements of Koninklijke Brill NV and its subsidiaries:

- Brill USA, Inc. (in Boston, MA)
- Brill Asia Pte Ltd (in Singapore)
- Brill Deutschland GmbH (in Paderborn, Germany)
- Brill Consulting Beijing Ltd (in Beijing, China)
- Sense Publishers BV (Dordrecht, the Netherlands)

In 2017, as in 2016, Koninklijke Brill NV had a 100% interest in Brill USA, Inc. At the time of a sale of print books to a third party, Brill USA purchases the books from Koninklijke Brill NV with a discount in line with market standards. Furthermore, Brill USA receives a commission in line with market standards for selling online publications.

Brill Asia Pte Ltd was incorporated as a 100% subsidiary of Brill as of January 1, 2016. Brill Asia performs publishing, marketing and sales and business development services to Koninklijke Brill NV and receives a market based fee in return.

Brill Consulting Beijing Ltd was incorporated as of July 5, 2017 as a 100% subsidiary of Brill Asia Pte Ltd. Brill Beijing provides marketing and sales services to the Group and receives a market based fee in return.

Brill Deutschland GmbH was incorporated as a 100% subsidiary of Brill on December 12, 2016. Brill Deutschland incorporates the Schöningh & Fink acquisition effective January 1, 2017.

Sense Publishers BV is a direct subsidiary of Koninklijke Brill NV. Sense was acquired with effective date 1 July 2017. It is Brill's intention to merge Brill and Sense during 2018.

Remuneration of the Managing Director and Supervisory Board
Brill is managed by a statutory director (Managing Director), supervised by the Supervisory Board. The members of the Supervisory Board receive an annual remuneration. They do not receive cash or other deferred incentive payments, such as stock options or shares, not do they accumulate pension entitlements with Brill.

The remuneration of the Managing Director, as detailed in the remuneration policy consists of a fixed and a variable component. The variable component entails a short-term variable incentive, maximized at 40% of the fixed component and a three-year long-term variable component maximized at 40% of the fixed component. The Managing Director has no remuneration in stock options or shares. In addition, Brill pays 70% of the pension premium in the employee pension plan (see note 2.18) for the Managing Director.

Remuneration pay out to the Supervisory Board and Managing Director in 2017 were as follows:

Remuneration of the Supervisory Board	**2017**	**2016**
Mr. S. Perrick	34,000	15,000
Mr. R. Hoytema van Konijnenburg	29,011	25,812
Mrs. C. Lucet	28,123	25,108
Mr. A.R. baron van Heemstra	0	20,483
	91,134	**86,403**
Remuneration of the Managing Director (pay-out)	**2017**	**2016**
Fixed		
Salary	260,000	255,000
Pension premium paid by Brill	75,136	73,837
Variable		
Anniversary payment		10,625
Incentive plan (concerning performance of previous year)	63,750	55,000
	398,886	**394,462**
Total remuneration of Supervisory Board and Managing Director	490,020	480,865

In 2018, the following amounts relating to variable remuneration will be paid out. In relation to the 2017 target achievement, an amount of EUR 129 thousand was recognized in the accounts of 2017 of which EUR 77 thousand is for the long-term target and EUR 52 thousand is for the short-term for payout in 2017. The short-term variable income to the Managing Director is granted according to performance criteria which in 2017 were based on increase of revenue, increase of EBITDA, ROIC and two non-financial targets. The increase of revenue was met at 70% and accordingly the Managing Director was awarded a payout of 3% on this target. The ROIC target was met at 70% and accordingly the Managing Director was awarded a payout of 1.5%. The EBITDA target was not met, resulting in 0% payout. One of the two non-financial targets was fully met resulting in a pay-out to the Managing Director of 12.5%. Finally the Supervisory Board used its discretion to award a further 3% making the total short-term portion 20%.

The long-term (3 year) variable income to the Managing Director is granted according to performance criteria which were based on growth of revenue. The 2015-2017 target (payout 2018) of 20% autonomous growth over three years was not met in 2017, the 2016-2018 target (payout 2019) of 2.6% average organic growth of revenue was met in 2016 and 2017 and the 2017-2019 target (payout 2020) regarding acquisition volume was not met in 2017. In view of the retirement of the Managing Director, the Supervisory Board used its discretionary power to award 30% for the achievement of the 2016-2018 plan.

With these amounts, all remaining entitlements relating to long-term incentives of the Managing Director have been settled.

Other related party transactions
There are no other related party transactions.

22. Events after balance sheet date

On November 29, Brill announced the acquisition of mentis Verlag, a German publisher in the field of philosophy, effective January 1st, through a purchase of business activities. Brill expects mentis to add around EUR 0.2 million in revenue. Total consideration will be EUR 0.2 million. Two staff joined Brill in relation with the acquisition, of which one fulltime.

There are no other events after balance date that give additional information about the actual situation as per balance sheet date with relevant financial impact on the company.

23. Reconciliation of non-GAAP information

Brill management believes an understanding of the company's performance is enhanced by using several Non-GAAP measures, respectively EBITDA, ROIC and free cash flow. In this note these measures are reconciled to GAAP measures.

EBITDA
Brill uses the term EBITDA to evaluate the performance of the total company and the operating segments.

Reconciliation of Revenue and profit before tax	2017	2016
Revenue	36,394	32,177
Cost of goods sold	-12,551	-11,158
Sales costs	-6,476	-5,735
General and administrative expenses	-13,212	-10,787
EBITDA	**4,156**	**4,496**
Depreciation and Amortization	-841	-785
Operating profit	3,315	3,712

Return on invested capital (ROIC)
Koninklijke Brill uses the term ROIC to evaluate the performance of the total company. ROIC shows both our ability to generate profitable revenue as well as our ability to control the balance sheet. Return on investment is calculated by dividing net operating profit less adjusted tax rate by average Invested capital.

Return on invested capital	2017	2016
Operating profit	3,315	3,712
Effective tax	-872 (26.3%)	-991 (26.6%)
Net operating profit less adjusted tax (NOPLAT)	2,443	2,721
Invested capital	22,932	21,080
Average invested capital	22,007	20,974
Return On Invested Capital	11.1%	13.0%
Asset turnover (revenue / average invested capital)	1.7	1.5
NOPLAT margin (NOPLAT / revenue)	6.7%	8.5%

Free cash flow

Free cash flow is a term used to evaluate the cash available to the company’s investors.

Free cash flow	2017	2016
Net cash flow	-2,517	5
Dividend paid to shareholders	2,474	2,324
	-43	2,329

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COMPANY BALANCE SHEET AS AT DECEMBER 31, 2017

In thousands of euro's (before appropriation of profit)

	2017	2016
ASSETS		
Non – current assets		
Tangible fixed assets [3]	408	240
Intangible fixed assets [4]	30,901	29,186
Financial fixed assets [5]	2,670	841
	33,978	30,268
Current assets		
Inventories	2,404	3,045
Trade and other receivables [6]	8,174	8,065
Derivative financial instruments	346	117
Income tax receivable	255	0
Cash and cash equivalents [7]	3,056	6,067
	14,235	17,295
TOTAL ASSETS	48,214	47,562
EQUITY AND LIABILITIES		
Equity		
Share capital	1,125	1,125
Share premium	343	343
Retained earnings	23,900	23,577
Other reserves	-226	-308
Undistributed profit	2,260	2,797
	27,402	27,534
Non–current liabilities		
Deferred tax liability	3,782	3,710
	3,782	3,710
Current liabilities		
Trade and other payables [8]	8,187	7,343
Deferred income	8,714	8,439
Provision	23	0
Tax to be paid	0	114
Derivative financial instruments	105	422
	17,029	16,318
TOTAL LIABILITIES	48,214	47,562

COMPANY INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of euro's

	2017	2016
Gross profit		
Revenue	28,140	26,874
Cost of goods sold	-8,882	-7,914
	19,258	**18,960**
Expenses		
Selling and distribution expenses	-4,146	-4,146
General and administrative expenses	-12,167	-11,540
Operating profit	**2,946**	**3,274**
Finance income	26	148
Finance expenses	-267	-46
Profit before income tax	**2,705**	**3,377**
Income tax expense	-673	-862
Results from subsidiaries, net of tax	228	283
Profit from continued operations, attributable to shareholders of Koninklijke Brill NV	**2,260**	**2,797**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Information regarding the Company

The company financial statements have been approved for publication by the Supervisory Board and the Managing Director on April 4, 2018. Koninklijke Brill NV is established as a Naamloze Venootschap (Public Limited Company), based at Plantijnstraat 2 in Leiden, the Netherlands and registered at the chamber of commerce under number 28000012. Its certificates of shares are traded publicly at Euronext in Amsterdam.

2. Basis of preparation for the company financial statements

The company financial statements are prepared based on Title 9, book 2 of the DCC, applying the regulations of section 362.8 allowing the use of the same accounting policies as applied for the consolidated financial statements. These accounting policies are described in the Notes to the Consolidated Financial Statements. Subsidiaries are recognized under financial fixed assets using the net asset value, applying the IFRS accounting policies endorsed by the European Union.

Where the notes to the company financial statements and the consolidated financial statements are almost the same, we refer to the consolidated financial statements.

2.1 Goodwill

Goodwill relating to investments in consolidated subsidiaries is initially measured as the excess of the aggregate of the consideration transferred over the net fair value of the net identifiable assets acquired and liabilities and contingent liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Presentation of goodwill is dependent on the structuring of the acquisition. Goodwill is presented separately in the company financial statements if this relates to an acquisition performed by the company itself. Goodwill is subsumed in the carrying amount of the net asset value if an investment in a subsidiary is acquired through the company's intermediate subsidiary.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill relating to investments with significant influence (associates) and joint ventures is always included in the carrying amount of those investments.

2.2 Investments in Subsidiaries

Consolidated subsidiaries are all entities (including intermediate subsidiaries) over which the company has control. The company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and can affect those returns through its power over the subsidiary. Subsidiaries are recognized from the date on which control is transferred to the company or its intermediate holding entities. They are derecognized from the date that control ceases.

The company applies the acquisition method to account for acquiring subsidiaries, consistent with the approach identified in the consolidated financial statements. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred by the company, liabilities incurred to the former owners of the acquiree and the equity interests issued by the company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition date, and are subsumed in the net asset value of the investment in consolidated subsidiaries. Acquisition-related costs are expensed as incurred.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements. If the net asset value, based on the business operation, is less than zero, the subsidiary will record a receivable vis-à-vis Brill nv in order to arrive at net zero book value.

When an acquisition of an investment in a consolidated subsidiary is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The re-measurement against the book value is accounted for in the income statement.

When the company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement.

When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognized in equity.

3. Tangible fixed assets

2017	Leasehold improvements	Other	Total
Book value as per January 1st, 2017	49	191	240
Investment	168	170	339
Depreciation	-25	-147	-171
Book value as per December 31st, 2017	193	215	408
January 1st, 2017			
Cost	674	3,205	3,879
Accumulated depreciation	-624	-3,014	-3,638
Net book amount	49	191	240
December 31st, 2017			
Cost	842	3,375	4,217
Accumulated depreciation	-649	-3,161	-3,810
Net book amount	193	215	408

2016	Leasehold improvements	Other	Total
Book value as per January 1st, 2016	61	290	351
Investment	0	70	70
Depreciation	-12	-169	-180
Book value as per December 31st, 2016	49	191	240
January 1st, 2016			
Cost before disposal	674	7,271	7,945
Disposal of assets	0	-4,136	-4,136
Cost	674	3,135	3,809
Accumulated depreciation before disposal	-613	-6,982	-7,594
Accumulated depreciation of disposal	0	4,136	4,136
Accumulated depreciation	-613	-2,845	-3,458
Net book amount	**61**	**290**	**351**
December 31st, 2016			
Cost	674	3,205	3,879
Accumulated depreciation	-624	-3,014	-3,638
Net book amount	**49**	**191**	**240**

Estimated useful life of fixed assets is as follows: Leasehold improvements 10 years, and other fixed assets (investments in computer related equipment, and furniture and equipment) between 3 and 10 years. The depreciation is part of the general and administrative expenses in the consolidated income statement. The disposal of assets only includes fully depreciated assets that are no longer present at Brill.

4. Intangible fixed assets

2017	Publishing rights	Goodwill	License	Capi-talized Content	Con-tent WIP	Infor-mation Systems	Total
Book value, January 1st, 2017	15,189	1,879	0	8,189	1,945	1,984	29,186
Acquisition	118	978					1,097
Investment	0	0	271		3,082	1,399	4,472
Transfer	0	0		3,007	-3,007		
Amortization	0	0	-27	-3,460		-648	-4,135
Book value, December 31st, 2017	**15,307**	**2,858**	**244**	**7,737**	**2,020**	**2,735**	**30,901**
January 1st, 2017							
Cost	15,181	1,879	0	34,063	1,945	9,736	62,812
Accumulated amortization	0	0	0	-25,874		-7,752	-33,626
Net book amount	**15,181**	**1,879**	**0**	**8,189**	**1,945**	**1,984**	**29,186**
December 31st, 2017							
Cost	15,307	2,858	271	37,071	2,020	11,135	68,661
Accumulated amortization	0	0	-27	-29,334		-8,399	-37,760
Net book amount	**15,307**	**2,858**	**244**	**7,737**	**2,020**	**2,735**	**30,901**

2016	Publishing rights	Goodwill	License	Capi-talized Content	Con-tent WIP	Infor-mation Systems	Total
Book value, January 1st, 2016	15,181	1,879	0	0	0	1,664	18,724
Reclassed from inventories	0	0	0	7,592	2,226	0	9,818
Acquisition	69	0	0	0		0	69
Investment	0	0	0		3,465	976	4,441
Transfers				3,746	-3,746		
Divestment	-61	0	0	0		0	-61
Amortization	0	0	0	-3,148		-656	-3,804
Book value, December 31st, 2016	**15,189**	**1,879**	**0**	**8,189**	**1,945**	**1,984**	**29,186**
January 1st, 2016							
Cost	15,181	1,879	0	0	0	8,760	25,820
Accumulated amortization	0	0	0	0	0	-7,096	-7,096
Net book amount	**15,181**	**1,879**	**0**	**0**	**0**	**1,664**	**18,724**
December 31st, 2016							
Cost	15,189	1,879	0	34,063	1,945	9,736	62,812
Accumulated amortization	0	0	0	-25,874	0	-7,752	-33,626
Net book amount	**15,189**	**1,879**	**0**	**8,189**	**1,945**	**1,984**	**29,186**

5. Financial fixed assets

	December 31, 2017	December 31, 2016	ownership
Brill USA, Inc. Boston, USA	808	799	100%
Brill Asia Pte Ltd, Singapore	0	17	100%
Brill Deutschland GmbH, Germany	113	25	100%
Sense Publishers BV, the Netherlands	649	0	100%
Loans to consolidated subsidiaries	1,100	0	
	2,670	841	

Financial fixed assets are stated at net asset value. The value of the financial fixed assets developed as follows:

	Brill USA Inc., (US)	Brill Asia Pte, (SG)	Brill Deutschland GMBH, (GE)	Sense Publishers bv, (NL)	Loans to consolidated subsidiaries	Total
Net carrying amount as of 1 January 2017	799	17	25	0	0	841
Investments	0	0	0	594	1,100	1,694
Profit 2017	109	-1	88	55	0	251
Revaluation foreign currency	-100	-16	0	0	0	-116
Net carrying amount as of 31 December 2017	808	0	113	649	1,100	2,670
Net carrying amount as of 1 January 2016	558	0	0	0	0	558
Initial share capital	0	0	25			25
Profit 2016	263	19				282
Revaluation foreign currency	-22	-2				-24
Net carrying amount as of 31 December 2016	799	17	25	0	0	841

6. Trade and other receivables

Trade and other debtors are short-term in nature, non-interest bearing and have payment terms of 30-90 days in general, depending on the country of origin of the trade debtor. For an aging analysis and changes in the provision for bad debt, refer to Note 8 to the consolidated financial statements.

	December 31, 2017	December 31, 2016
Trade debtors	5,978	5,977
Intercompany receivables	755	
Other receivables	1,441	2,088
	8,174	8,065

7. Cash and cash equivalents

As per ultimo 2017, cash and cash equivalents were EUR 3,056 thousand (ultimo 2016: EUR 6,067 thousand). The funds are freely available to Brill.

8. Trade and other payables

	December 31, 2017	December 31, 2016
Trade creditors	3,269	3,146
Intercompany liabilities	623	587
Accruals	2,342	1,808
Other short term liabilities	1,954	1,802
	8,187	7,343

For further information, refer to Note 12a of the consolidated financial statements.

9. Commitments

A rental agreement is in existence for our offices located in Leiden with duration until September 2023. A bank guarantee of EUR 115 thousand was issued in support of this agreement. Furthermore, the company has operational leasing contracts for company cars with a duration of four years. Financial liabilities for leasing and rent are:

As per December 31st, 2017	2018	2019	2020	2021	2022	>2022
Company cars	59	31	5	0	0	0
Rent	330	340	350	361	372	287
	389	371	355	361	372	287
As per December 31st, 2016	2017	2018	2019	2020	2021	>2021
Company cars	60	53	28	5	0	0
Rent	328	338	348	359	370	675
	388	391	376	364	370	675

10. Audit fees

	2017	2016
Audit of annual financial statements	295	117
Other audit procedures	0	0
Tax services	0	0
Other non – audit services	0	0
	295	117

These audit fees relate to fees paid to PricewaterhouseCoopers Accountants NV (PwC) in the Netherlands. PwC is not used outside the Netherlands, nor is PwC used for any consulting engagements.

11. Profit appropriation

Management proposes an ordinary cash dividend of EUR 1.32 and an extraordinary distribution from the reserves of EUR 3.00 per (certificate of) ordinary share of EUR 0.60 nominally. Refer to separate chapter ‘Shareholder information’. If the Annual General Meeting accepts the dividend proposal, the 2017 profit in the amount of EUR 2,260 thousand will be appropriated as follows:

Profit appropriation proposal	2017
Ordinary dividend on ordinary shares	2,260
Retained Earnings	0
Net profit	2,260

12. References to additional disclosures

For disclosures regarding the following items, please refer to the notes to the consolidated financial statements as listed below:

- -Inventories – Note 7
- -Equity – Note 10
- -Interest bearing debt – Note 11
- -Financial instruments – Note 13
- -Financial risk management – Note 14
- -Events after balance date – Note 22

Leiden, April 4, 2018

Supervisory Board
Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

Managing Director
Herman A. Pabbruwe

Other Information

Appropriation of profit for the year

Bylaws regarding profit appropriation

Profit appropriation takes place pursuant to article 30 of the Articles of Association which stipulates that profit shall be distributed as follows:

A. Payment of a dividend on the amount paid up in respect of the cumulative preference shares in accordance with Article 25.2 of the Articles of association.
B. The Combined Meeting determines the amount, after deduction of the payout as established under A. that is to be added to Retained earnings to satisfy the Group's solvability objectives.
C. The Supervisory Board determines the variable remuneration of the Managing Director.
D. The Supervisory Board, consulting with the Managing Director, establishes the variable remuneration of the other staff.
E. The amount remaining after payout of the cumulative preference shares, retained earnings, and variable remuneration is at the disposal of the Annual General Meeting of shareholders for payout to holders of (certificates of) ordinary shares.

The Brill share

Since July 1997, Koninklijke Brill NV has been listed on Euronext Amsterdam. The register of shareholders of Koninklijke Brill NV is managed by:

SGG Management (Netherlands) BV
Claude Debussylaan 24
1082 MD Amsterdam
T +31 20 52 22 555

SGG also acts as administrator of the Stichting Administratiekantoor Koninklijke Brill. Registered shareholders can send changes of address notifications and questions on shareholding or dividend payments to the above-mentioned trust office.

In the context of the Financial Supervision Act, the following holders of share certificates, on December 31, 2017, have reported an interest of 3% or more to the Dutch Authority Financial Markets:

Filings	Size	Declaration date
Mont Cervin Sàrl	22%	22 June, 2012
Axxion SA	6%	20 July, 2016
Teslin participaties	6%	22 February, 2013
J.P. van Slooten	5%	13 July, 2016
Brokat Media Support BV	5%	18 December, 2012
Stichting Administratiekantoor Arkelhave Capital	5%	16 December, 2016
Stichting John en Marine Van Vlissingen Foundation	5%	11 August, 2015
GVB Capital Management	3%	26 June, 2012
Add Value Fund NV	3%	18 July, 2012

Number of Shares

The number of shares outstanding with a nominal value of EUR 0.60 was 1,874,444 on December 31, 2017 (on December 31, 2016 1,874,444). Of the total number of shares outstanding as of December 31, 2017, 1,834,463 certificates were issued and 39,981 registered shares were recorded in the share register.

Holdings of Management and Supervisory Board members

Herman A. Pabbruwe 8,311 shares (Managing Director)

The Managing Director, before his appointment and for his own account and risk, acquired share (certificates) in Brill via his bank with the consent of the Supervisory Board. It has been agreed with the Supervisory Board that the Managing Director will not dispose of or encumber these certificates, possibly increased by stock dividend for which a standard instruction has been given, during his active employment.

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and supervisory board of Koninklijke Brill N.V.

Report on the financial statements 2017

Our opinion

In our opinion:

- Koninklijke Brill N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- Koninklijke Brill N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of Koninklijke Brill N.V., Leiden ('the Company'). The financial statements include the consolidated financial statements of Koninklijke Brill N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the following statements for 2017: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company income statement for the year then ended 31 December 2017;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of Koninklijke Brill N.V. ('Brill' or 'the Company') in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties'(Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands.

Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Brill is an international scholarly publisher. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.
Last year, the Company reported internal control deficiencies in their director's report. As part of our planning procedures we assessed the progress made by the Company in addressing these internal control deficiencies and we concluded that a substantive audit approach is still necessary rather than a controls-based audit approach based on the status of the progress made.

In addition, the Company identified in 2017 misstatements in its prior year reporting that also resulted from internal control deficiencies. One misstatement relates to the excessive book returns caused by erroneous over-ordering by a key US client. Another misstatement relates to the completeness of the liability for royalty expenses. Both matters have been further explained by the Company in its director's report.
We considered Brill's deficiencies in their internal control framework to be a key audit matter, because of the limited progress made by the Company in addressing the existing internal control deficiencies.

In 2017 the Company completed the acquisitions of the publishing houses Schöning & Fink and Sense Publishers. The accounting of these transactions as business combinations is complex and requires significant management judgement regarding the valuation aspects and also required considerable time and attention in our audit. Therefore, we considered the accounting for business combinations to be a key audit matter.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Managing Director made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2.6 of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of the publishing rights, goodwill and capitalised content related costs, we considered this to be key audit matter.

The Group made use of third parties (i.e. agents) in conducting sales transactions. During 2017 Brill took action to address the completeness of the third party revenue, however, no formal controls are implemented yet. The Group's revenue recognition is fully dependent on the sales information provided by these third parties. In our audit approach we paid special attention to the completeness of these third party revenues. Therefore we considered the completeness of third party revenue to be a key audit matter.
For more details on the above refer to the section 'Key audit matters' of this report.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Managing Director that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of an internationally operating publishing company. We therefore included specialists in the area of IT and valuations and hedge accounting experts in our team.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: €155,000

Audit scope

- The group consists of four components: Brill The Netherlands (Leiden and Dordrecht), Brill USA (Boston), Brill Germany (Paderborn) and Brill Asia (Singapore and Beijing).
- The group engagement team performed audit work at the head-office in Leiden, where all significant financial statement line items of the group were audited.
- The group engagement team instructed the component auditor in the USA to perform specified procedures for group purposes, which included attending inventory counts in the USA.
- The group engagement team attended the inventory counts at third parties in the United Kingdom and Germany.
- Audit coverage: 100% of consolidated revenue, 95% of consolidated total assets and 99% of consolidated profit before tax.

Key audit matters

- Deficiencies in internal control framework.
- Accounting for business combinations and the fair value of the calculation of the intangible assets identified.
- Significant assumptions in the valuation and amortization of intangible assets
- Completeness of third party sales

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.
Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€155,000 (2016: €190,650).
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 5% of profit before tax.
Rationale for benchmark applied	We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company.
Component materiality	The component materiality used for the financially significant component Brill The Netherlands equals € 155,000.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.
We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 7,770 (2016: € 9,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Koninklijke Brill N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Koninklijke Brill N.V.
We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team or component auditor. Also, we considered in our scoping of the group audit the activities carried out under direction of the Company and those activities carried out by external service providers.

In our group audit scoping the group consists of four components:

- Brill The Netherlands, located in Leiden and Dordrecht.
- Brill USA, located in Boston.
- Brill Germany, located in Paderborn.
- Brill Asia, located in Singapore and Beijing.

The group audit primarily focused on the component Brill The Netherlands, as this component is individually financially significant to the group. The components Brill USA and Brill Germany were selected for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. The accounting records of these components were available at the head office in The Netherlands and were audited by the group team.

For Brill USA we instructed the component auditor of Brill USA to perform specified procedures in the USA. These specified procedures included attending the inventory count and performing test counts at the premises of the external service provider. We received a report of specified procedures from the component auditor of Brill USA and we assessed the results.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	100%
Total assets	95%
Profit before tax	99%

The remaining component Brill Asia did not represent more than 1% of total group revenue or total group assets. For Brill Asia we performed analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

We identified an external service organization in the UK and the USA, providing significant services for the Group including invoicing, account handling, credit control, warehousing & stock control and reporting. We obtained an understanding of the nature and significance of the services provided by the external service organization, and of the controls in operation at the service organization (and sub-service organization).

Prior to obtaining an ISAE 3402 type 2 report we assessed the professional competence, objectivity and independence of the auditor of the service organization. We evaluated the ISAE 3402 type 2 report prepared by the auditor of the service organization. We also held meetings and conference calls with the management of the service organization and its auditor to evaluate the sufficiency and appropriateness of the evidence provided by the report.

Where the work was performed by a component auditor or the auditor of an external service organization, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

The group consolidation, financial statement disclosures and complex items were audited by the group engagement team at the head office in Leiden. These complex items included the accounting for business combinations, hedge transactions, impairment assessments of intangible fixed assets with indefinite useful life and the amortization of capitalized content costs.

By performing the procedures above at the group level, combined with additional procedures at component level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters 'Significant assumptions in the valuation of assets' and 'Completeness of third party sales' are similar in nature to the key audit matters we reported in 2016 and in line with the nature of the company's business and its environment. Last year's key audit matter on the 'Impact of (IT General) control deficiencies on the audit' is succeeded by the 'Deficiencies in internal control framework', because we chose a substantive audit approach rather than a controls-based approach from the very start of the audit. The key audit matter 'Accounting for business combinations and fair value of the intangible assets' is new this year following the acquisitions in 2017.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We did not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Key audit matter	*How our audit addressed the matter*
Deficiencies in internal control framework The internal control deficiencies and related impact are included in paragraphs 'Introduction by the Managing Director' and 'Risk management and internal control in 2017' in the director's report of the annual report	We evaluated internal controls in key business processes and assessed the actions taken by the company during 2017. We communicated the deficiencies and progress made to the Managing Director and the Supervisory Board.
In 2017 the Company started to follow up on internal control deficiencies reported by us in prior years. As part of our examination of internal controls we noted that (significant) control deficiencies were not solved during 2017 and that the internal control framework was not strengthened sufficiently to mitigate the risks of a material misstatement to an acceptable level.	Based on the deficiencies noted, we chose a substantive audit approach rather than a controls-based audit approach. Our substantive audit procedures were designed and performed to address the control deficiencies known and to obtain sufficient and appropriate evidence. These procedures included, amongst other procedures, testing significant samples of revenue transactions and verification of logging files from the main financial systems.
In addition, in 2017 the Company was confronted with two misstatements originating from 2016 which resulted from internal control deficiencies. First, the company was confronted with excessive book returns caused by a malfunctioning of the exchange of information in the EDI interface between the service organization and a key US client. This resulted in erroneous over-ordering by the key US client, which has been identified by the Company in the first half of 2017. Secondly, Brill had an omission in the completeness of the liability for royalty expenses, because the calculation of the royalty expenses was not correctly based on the percentages in the underlying contract.	As part of our substantive testing we also addressed the excessive book returns. We assessed the initial analysis provided by Brill's management, which included a root cause analysis and impact assessment which includes impact on 2016 figures. We then compared management's analysis with the impact assessment obtained from the external service organization. As part of these procedures, we performed inquiries of the management of the service organization and its auditor.
The Company concluded that the financial impact on 2016 figures is not material and therefore there was no need to account for these misstatements as prior year errors in accordance with IAS 8.	We found that management's assessment was in agreement with the assessment prepared by the external service organization and appropriately addressed in preparing the 2017 figures.

Key audit matter	*How our audit addressed the matter*
Consequently, the financial impact was included in the 2017 figures. Also, the Company evaluated the impact of these internal control deficiencies for 2017 figures and where considered necessary remediation actions were taken. Due to the significance of the identified internal control deficiencies and impact on the design of our audit we consider this to be a key audit matter.	We addressed the completeness of the liability for royalty expenses by performing the following substantive testing: • We evaluated the impact assessment of the omission in the completeness of the liability of the royalty expenses for the period up to 2016 prepared by management. • We evaluated the completeness assessment prepared by management. • We tested whether ISB numbers without royalty expenses that generated revenue were in accordance with the underlying contracts. • We recalculated royalty expenses based on underlying royalty agreements and the amount of revenue recognized. • For a sample of royalty contracts we tested that the contracts and the contract input data were accurately and completely accounted for. Our procedures did not identify material exceptions and we consider management's analysis regarding the financial impact for period up to 2016 to be reasonable.
Accounting for business combinations and fair value calculation of the intangible assets identified [*reference to note 3 in the annual report*] The acquisitions of Sense and Schöning & Fink were finalised in 2017. Following these acquisitions integration and alignment of processes took place. The company completed the purchase price allocation for Schöning & Fink with the assistance of external experts. For Sense a provisional purchase price allocation has been accounted for. As part of the purchase price allocations two significant intangible assets have been identified for € 638 thousand: the publishing rights and the brand name. These intangible assets have been valued using the multi-period excess earnings method (MEEM) and the following significant assumptions are applied: the discount rate, growth rate, sales volumes in business plan. The remaining purchase price is accounted for as goodwill for an amount of € 1,088 thousand.	As part of our substantive audit procedures we tested the acquisitions based on supporting documentation such as the underlying agreements. In close cooperation with our valuation experts we assessed the purchase price allocations and the fair value calculations of the intangible assets identified. We challenged assumptions made by the management by using external benchmarks. Our valuation experts assessed management's calculation of the discount rate and whether the discount rate used is consistent with observable market data. We found that the discount rate used by management was within an acceptable range. We reconciled growth percentages used to the strategic plan 2018-2020 of the management and compared these to historical growth percentages and sector information.

Given the significance of the acquisition transactions and the complexity of accounting for business combinations, and the significant management assumptions in the valuation of the intangible assets identified, we consider this to be a key audit matter.

Finally we assessed the adequacy of the disclosures for the business combinations in the notes to the financial statements.

Based on the audit procedures performed, we found management's estimates and judgment used in the fair value calculations to be supported by available evidence.

Significant assumptions in the valuation and amortization of intangible assets
[*reference to note 5 in the annual report*]

The valuation of indefinite-lived intangible assets and content are based on significant assumptions of management. Following a reclassification, the intangible assets also include capitalised content costs that are amortized using a diminishing balance method based on the estimated consumption pattern.

The indefinite lived intangible assets (mainly consisting of goodwill and publishing rights) represent a total balance of € 18,831 thousand and the content represents a total balance of € 9,754 thousand (including work in progress) as of 31 December 2017.

The Company is required to test indefinite-lived intangible assets for impairment at least annually. The Company manages the Group based on five operating segments: ARC, HIS, LAW, MIA and S&F. These segments correspond to cash generating units (CGUs) at the lowest level for which independent cash flows exist. The impairment tests were important for our audit, because the cash flows used in the impairment tests were based on significant assumptions made by management. These assumptions were related to the discount rate used, growth rates, market developments and the company's future plans.

The valuation of the intangible assets was important for our audit, because the balance is material and the valuation and amortization charge for content is based on significant assumptions.

We obtained the impairment tests prepared by management. We challenged the assumptions and estimates used in the impairments tests, including the determination of CGUs. We reconciled growth percentages used to the strategic plan 2018-2020 of management and compared these to historical growth percentages and sector information. Our valuation experts assessed management's calculation of the discount rate and whether the discount rate used is consistent with observable market data. We also performed look-back procedures and sensitivity analyses of value in use for different discount rates and terminal growth rates.

Our procedures did not identify material exceptions and we considered management's key assumptions to be within a reasonable range of our own expectations.

We also assessed the adequacy of the Company's disclosures.

For the reclassification of capitalized content costs, we assessed that the classification of content as intangible asset in line with the changed accounting policies and we assessed the adequacy of the disclosure in note 2.4 regarding this accounting change . In addition, we evaluated the consistency and appropriateness of the accounting policy with respect to content and amortization of content. We tested capitalized content costs on a sample basis by agreeing selected capitalized content costs to supporting documents. We recalculated the amortization of content and agreed the inputs of the calculation to the

	underlying estimated consumption patterns. We assessed the quality of the estimated patterns and critically challenged management on assumptions made regarding useful life of content and its pattern of economic benefits. Our procedures did not identify material exceptions
Completeness of third party sales [*reference to note 15 in the annual report*] A significant part (€ 4.2 million) of the sales was conducted via third parties (agents). During 2017, the company took further action to address the completeness of the third party revenue as part of their internal control framework, however, the internal controls were not (yet) formalised and implemented in 2017. We reported on the progress in the formalisation and effectiveness of internal controls with respect to completeness of third party sales to the Managing Director and the supervisory board. The Group's revenue recognition is dependent on the sales information provided by these third parties. Also, in 2017 Brill's management prepared an analysis on the completeness of the third party revenue streams. Given the size of the third party sales and the lack of internal controls we considered the completeness of third party revenues as a key audit matter.	Our procedures included, amongst others, the assessment of the internally prepared analysis on the completeness of the revenues as presented by the third parties. We assessed the reasonableness of the assumptions made by management in their analysis compared to developments in the market and we performed lookback procedures. Also, we tested by sample that confirmations of third parties obtained by the client reconcile with underlying records and verified the authenticity of these confirmations. Our procedures did not identify material exceptions and considered management's assumptions within the analysis to be within a reasonable.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the directors' report ('director's report on the year 2017');
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- 'Supplemental Information'.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Managing Director is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment
We were appointed as auditors of Koninklijke Brill N.V. on 13 May 2015 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 13 May 2015 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 3 years.

No prohibited non-audit services
To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered
We have not provided any services in addition to the audit to the company and its controlled entities, for the period to which our statutory audit relates.

Responsibilities for the financial statements and the audit

Responsibilities of Managing Director and the supervisory board for the financial statements
The Managing Director is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as Managing Director determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Managing Director is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, Managing Director should prepare the financial statements using the going-concern basis of accounting unless the Managing Director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Managing Director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not

detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Utrecht, April 4, 2018
PricewaterhouseCoopers Accountants N.V.

drs. J.W. Middelweerd RA

Appendix to our auditor's report on the financial statements 2017 of Koninklijke Brill N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Managing Director.
- Concluding on the appropriateness of Managing Director's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the supervisory board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

SUPPLEMENTAL INFORMATION

Report of Stichting Administratiekantoor Koninklijke Brill (Brill's Trust Office)

Activities

Of the total number of outstanding shares as at December 31, 2017 (nominal value of EUR 0.60), 1,834,463 bearer depositary receipts were issued and 39,981 registered shares were included in the shareholders' register. The bearer depositary receipts are represented by a single depositary receipt certificate. The work associated with the administration of the shares is performed by SGG Management (Netherlands) NV (Claude Debussylaan 24, 1082 MD in Amsterdam), the trust office's administrator. The costs of administration amounted to EUR 64.7 thousand in 2017 (EUR 108.7 thousand in 2016 – note final figures, updated from last year's preliminary figures). The trust office's chairman receives a remuneration of EUR 9 thousand on an annual basis and the other two board members each receive a remuneration of EUR 7.5 thousand on an annual basis.

The Board convened a meeting of holders of depository receipts for shares Brill, which was held on February 16, 2017, in Amsterdam. In this meeting, the Board discussed with the holders of depository receipts its proposal for a new voting policy to refrain from voting, unless explicitly mandated to do so by holders of depository receipts of shares. This policy applies to ordinary voting situations and may be adapted in the case of special situations. In relation thereto, the general meeting of Brill has been requested to vote on a renewed agreement for the issuance of preference shares.

In the year under review, the Board met two times physically. During its first meeting on February 16, 2017, which took place shortly after the meeting of holders of depository receipts for shares, the Board discussed the proposal that was made to the meeting of holders of depository receipts for the new policy to refrain from the exercise of the voting rights to the shares held by the trust office in Brill for which no voting proxies were received or for which the trust office did not receive any voting instructions. The Board unanimously approved this new policy and resolved that this new policy be started once the general meeting of Brill approved the renewed agreement for the issuance of preference shares. Further, the Board unanimously resolved to increase the remuneration, starting as from the financial year 2017, to EUR 9 thousand for the chairman and EUR 7.5 thousand for each of the other two board members. Finally, the Board unanimously resolved to appoint Mr. Marco Nieuwe Weme as chairman of the Board starting at the end of the meeting of holders of depository receipts for shares in Brill. During the Board meeting held on April 13, 2017, the 2016 annual report and financial statements, the company's strategy and its implementation and the general course of events within the company were discussed. In addition, the agenda for the General Meeting of Shareholders was discussed and the way in which the Board would vote in the meeting was decided. The decision was made to refrain from voting in relation to all motions tabled.

In the company's General Meeting of Shareholders which took place on May 16, 2017, 98% of the company's issued capital was represented. The trust office granted authorization to holders of 59.3% of all depositary receipts to vote independently on the shares for which they held the depositary receipts. The trust office refrained from exercising the right to vote on the shares for which no voting instruction was issued. For the depositary receipts of shares for which the trust office received a voting instruction (3.2% of depositary receipts), the trust office casted a vote in the meeting.

Board composition

At December 31, 2017, the composition of the trust office's board was as follows:

Name	Appointed	In office until	Position
Marco P. Nieuwe Weme, Prof. LL.M.	2016	2020	Chairman
Joost C. Kuiper, LL.M.	2014	2018	Member
Yvonne C.M.T. van Rooy, LL.M.	2016	2020	Member

Corporate Governance

The trust office's Board does not adhere to the principle of the current Dutch Corporate Governance Code regarding the protective nature of the depositary receipts. The trust office's Board adopts this stance, because it believes proper protection against any hostility is of vital importance to a company like Brill in terms of size and special position.

The trust office will always issue voting proxies to depositary receipt holders or accept binding voting instructions from them for meetings of shareholders, except in the situations referred to in Section 118a, subsection 2, of Book 2 of the Dutch Civil Code. The same procedure will apply to any revocation of a proxy that has already been issued. In accordance with its voting policy, the trust office refrains from voting, unless explicitly mandated to do so by holders of depository receipts of shares. This policy applies to ordinary voting situations and may be adapted in the case of special situations.

The Board is prepared to give depositary receipt holders the opportunity to make recommendations in the event of board vacancies. The Board will not take such recommendations into account when making decisions, however, if, in the opinion of the Board, a nominated candidate does not believe in the importance of the protective function of the depositary receipts as described above. Further, the Board will use the most practical working procedure possible with respect to any recommendations. This means that, each year, the trust office's report will give notice of any vacancy that will arise in the subsequent year so that depositary receipt holders can make any recommendations known outside meetings.

The Board observes the current Dutch Corporate Governance Code with the exception, however, of the way in which it exercises its right to vote. Contrary to the Dutch Corporate Governance Code, the following provision is observed: 'The trust office shall exercise the rights attached to the shares in such a manner as to ensure that the interests of the company and its business and all parties involved are safeguarded to the greatest extent possible.' The Board believes that its position with respect to maintaining the protective nature of the depositary receipts for shares means that the interest of depositary receipt holders cannot be the sole or dominant interest when votes are cast. In normal circumstances, the Board is of course always prepared to listen to depositary receipt holders and take the opinions that they have expressed into account. This also means that the Board will attend the company's shareholders' meetings and, if required and applicable, make a statement regarding intended voting behavior. Except in the event of special circumstances, the Board does not intend to convene meetings of depositary receipt holders.

Declaration of Independence

The Board of Stichting Administratiekantoor Koninklijke Brill, the trust office, hereby declares that, in its opinion, the requirements that apply to the independence of the trust office as referred to in Section 5:71, subsection 1 under d, of the Financial Supervision Act have been met.

Leiden, April 4, 2018

Stichting Administratiekantoor Koninklijke Brill
The Board

REPORT OF STICHTING LUCHTMANS

The purpose of Stichting Luchtmans, a foundation named after the founder of the Company, is to serve the interests of the company and those of companies affiliated with it in a group, as well as those of businesses maintained by the company and/or by companies affiliated with it in a group, in such a way as to ensure that the interests of the company and the group companies and businesses referred to, as well as the interests of all parties involved, are safeguarded to the greatest extent possible and factors that could adversely affect the independence and/or the continuity and/or the identity of the company and the group companies and businesses referred to are resisted to the greatest extent possible. Stichting Luchtmans endeavors to achieve its objectives by acquiring and managing cumulative preference shares in the capital of the company and by exercising the rights attached to those shares, particularly the right to vote conferred by those shares.

Stichting Luchtmans has been granted a call option that gives it the right, in the event of hostile action or imminent hostile action against the company, to take a number of cumulative preference shares equal to, at most, 100% of the shares and depositary receipts issued at the time at which the option is exercised less one share. When the option is exercised, only 25% of the total nominal amount must be paid. The exercise price is equal to the nominal value. Stichting Luchtmans and the company have agreed that the option may be exercised up to 100% of the issued capital if and as long as shares and depositary receipts are listed on the Euronext Amsterdam NV exchange.

At the end of 2017, the composition of the foundation's board was as follows:

Name	Appointed	Current term until	Position
Piet G.J. van Sterkenburg	2006	2018	Chairman
Herman P. Spruijt	2001	2020	Vice chairman
Joris P. Backer, LL.M.	2008	2020	Secretary/treasurer
Rudy P. Voogd, LL.M.	2005	2017	Member
Tanja Bender	2017	2020	Member

The Board of the foundation aims to meet at least once a year. One meeting in person took place in 2017 (April 19). In this meeting, the company's 2016 results, the implementation of the strategy, financing, acquisitions, market developments, and the general course of events within the company were discussed. Mr. Spruijt and Mr. Backer were reappointed for a three-year term. A telephone conference took place on 12 July in which the Managing Director informed the Board about the progress made in the on-going consultation of stake holders leading to the proposal to approve a new option agreement between the company and the Stichting. This agreement was indeed signed on 23 June 2017, following the affirmative vote in the AGM.

Mr. Rudy Voogd retired from the board at the expiration of his last term. The Board and the company have expressed their debt of gratitude to Mr. Voogd for his support and expert advice during twelve years of service.

Declaration of Independence

The Board of Stichting Luchtmans hereby declares that, in its opinion, the requirements that apply to the independence of the directors of Stichting Luchtmans as referred to in Section 5:71, subsection 1 under c, of the Financial Supervision Act have been met.

Leiden, April 4, 2018

Stichting Luchtmans,
The Board

FINANCIAL AGENDA 2018

Annual General Meeting of Shareholders
May 17, 2018 (2.00 PM at Brill premises)

Publication of Results First Half Year 2018
August 23, 2018 after stock market close

Trading Update Third Quarter 2018
November 15, 2018 after stock market close

FINANCIAL AGENDA 2019

Announcements of Results 2018
March 14,2019 after stock market close

Publication Annual Report 2018 on corporate website (brill.com)
April 4, 2019

Trading Update First Quarter 2019
April 18, 2019 after stock market close

Annual General Meeting of Shareholders
May 16, 2019 (2.00 PM at Brill premises)

Investor Relations

Brill will be happy to provide (potential) shareholders and other stakeholders with relevant information to the best of its ability. Copies of (semi-) annual reports can be found at brill.com, under: About / Investor Relations. In addition, information may be requested via the following address.

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ABOUT THIS ANNUAL REPORT

Annual report and Brochure

This annual report is available in PDF format on brill.com under About / Investor Relations.

Also a brochure will be published containing a summary of the consolidated Financial Statements, the Managing Director's Report and a special article.

The brochure 'Brill in 2017' will also be available on brill.com under About / Investor Relations.

Colophon

Design and lay-out
André van de Waal
Coördesign, Leiden