ANNUAL REPORT 2016

# 16

TUTA SUB AEGIDE PALLAS · 1683 ·

BRILL

## Supervisory Board

**Members**

Steven Perrick (appointed August 24, 2016)
Catherine Lucet
Robin Hoytema van Konijnenburg

## Managing Director

Herman A. Pabbruwe

KONINKLIJKE BRILL NV
Plantijnstraat 2
PO BOX 9000
2300 PA Leiden

T +31 71 53 53 500

This annual report is available as PDF on www.brill.com under: Resources/Corporate/Investor-Relations

# CONTENTS

## Introduction by the Managing Director

In 2016, Brill continued to recover from the performance decline that had developed over the last few years. Adjusting for the contribution of hedge accounting we arrived at underlying organic growth of 3% and total growth of 4.4%. This we consider satisfactory given the continued decline in print sales. Recurring revenue, digital products, working capital and cash flow showed positive developments.

Although these key underlying indicators were strong, results were impacted by one time charges relating to a title divestment and write-down of prepaid royalty expenses which impacted profit before tax by an aggregate EUR 0.6m.
Nonetheless, a strong increase in profitability resulted, enabling us to confidently propose a dividend of € 1.32 per share, an increase of 6% versus 2015. If approved, this will mark our sixth consecutive year of dividend increase, in line with our objective to maintain or increase dividends permitting business circumstances.

The acquisition of Schöningh & Fink marks the first success in our continued search for German publishers with strong positions in the areas Brill is specializing in.

We think our results reflect the positive developments we see throughout our organization and the stronger positions we keep building in our niches. It is true that in some countries humanities and also social sciences face political criticism and hampering funding, but on the other hand our continued focus helps us make our position stronger and increase market share.
Our approach of serving the market with multiple product formats and streamlining our institutional sales activities makes us a stronger company in the various fields we are renowned for. Our reputation together with an independent position and strong quality management must offer further opportunities for sustainable growth and for staying relevant.

We keep investing in digital capacity and have become an increasingly electronic publishing company.
In 2016, for the first time, we generated more than 50% of revenues in digital formats. Print has now become just one of our service platforms and print journals and books are almost always produced on demand and per copy. The project we initiated in 2015 to reconfigure global warehousing and distribution is a major development. The 2016 results show the positive impact of the new set up; considerable savings in logistical and production costs while at the same time service levels and delivery times could be improved, and stock levels declined again.

The path to migrate to this new environment of digital publishing has been long; some 15 years from the early days. Electronics in publishing have led to electronic publishing and electronic publishing will in turn lead to new products and services. We selected four key technologies which we identify as agents of change in scholarly research in the humanities. We focus on geographical information systems (GIS) and spatial software, image and pattern recognition, semantic technologies and statistical analysis. In all areas we have started strategic projects to explore these new means in conjunction with research teams in their academic settings. We believe that we find ourselves in the leading group of organizations which will develop software, apps and services and put artificial intelligence to use. There is time to experiment and learn and to look for promising ventures. We are encouraged by our own experience with the Brill typeface software which keeps developing well and gains wider usage.

The focus on deepening and widening our footprint in the markets we serve is enhanced by the roll out of new product formulas we have been working on during the last few years such as Brill Open, Brill's Research Perspectives, Brill's Critical Readings and Brill's Primary Sources on Line. Most of our publications will be hosted on a completely revised and state of the art publishing platform which we commissioned in 2016 and will go live in 2017. The project runs parallel with a revision of our editorial process which will help us realize the vision of 'digital first' publishing. We expect both monetary as well as service gains in the coming years from this approach. It will enable Brill to offer a complete mobile experience and engineer all publications for machine reading environments.

Meanwhile, digital progresses in other areas of our company as well; the sales and marketing staff is shifting resources towards the use of social media and digital marketing and promotion. On the sales side, we are successful in selling larger collections of digital publications to libraries, universities and consortia. This type of sales approach requires key account management skills and is of a strategic nature. Increasingly universities consider their relationship with publishers in a broader context i.e. including the publishing cooperation that their faculty is having with Brill. We have therefore revisited our sales channel policies and improved terms and conditions in relation to third parties. We want to put our representatives in the best possible position to do business with our key accounts. Brill's own field sales force is increased in North America and Asia. The office in Singapore is now well established and our activities in East Asia are stepped up with good results.

In a renewed management team, Publishing, Finance & Operations and Sales & Marketing work closely together on a coherent agenda. The basis is a completely revised strategic plan which was developed in close and active consultation with the Supervisory Board. The plan is primarily based on organic development and offers solid, attractive opportunities to keep growing results and make Brill a stronger company.

In connection with the strategic vision the M&A agenda is increasingly focused on growing our market share in the niches we cover and expanding our scope into the Social Sciences, particularly in fields that are adjacent to Brill's existing market segments.

Our decision to step up our scouting activities in the German speaking countries is starting to pay off. Schöningh & Fink developed as a family owned publishing house with a strong tradition of high quality scholarly publications. We see many opportunities where the combination with Brill can produce benefits. The German academic tradition is one of the strongest in the world and it is no coincidence that Brill already publishes many titles which were originally published in German such as Brill's New Pauly. Brill has a significant portion of its revenue and authors in Germany and acquisitions will help grow our presence. In the longer run Brill expects a large proportion of German top level research to look for international outlets and this is where Brill can make a difference. Over time more German language publication will give way to English language publishing. At this point more German publishers of limited size look for internationalization and digitization. For this they need financial resources. Brill seeks partnerships with these companies and can provide a respectful and long-term oriented environment if it comes to an acquisition.

In the context of communication with Brill's stakeholders, 2016 was a special year in which interaction with the shareholders was much more intense than before. Brill's vision as discussed at the annual meetings in previous years and worded in our Annual Reports became subject of debate; particularly the number of legal instruments to protect the company from a hostile takeover was criticized by some major holders of certificates of shares. Management and Supervisory Board have met with a large number of stakeholders over the Summer and mapped out the various opinions in an extensive consultation.
In January 2017 the company has announced that we consider the reasons for protecting the company to remain valid. However, we have indicated that in our

opinion the policy of the Trust Office to vote for absent holders of certificates can be modified under normal circumstances if at the same time the option to issue preference shares will be improved. The company has requested the Trust Office to discuss this with certificate holders, which resulted in a meeting with certificate holders on February 16th, 2017.

In December 2016 a final draft of the Dutch Corporate Governance Code was published which shows no major changes in this respect. The company will keep explaining why Brill doesn't comply with the general principle that certification must not be used to protect a company in situations where Brill sees it as a useful instrument.

Based on the consultation and discussion between all parties involved we are confident that a solution will be found which will be supported by most of the certificate holders.
Brill is fortunate to have stakeholders who are actively involved and who contribute to our vibrant business environment. We all care for this special and still promising publishing house who will celebrate its 334th anniversary in May.

In 2016 we further developed our policies on Corporate Sustainability. We are proud to have signed up to the UN's Global Compact Agenda and will work hard to live up to its demands.

A vital element of who we are is of course our position as a listed company and the compliance with the applicable rules and regulations. However, we also strongly feel about values and guiding principles. Perhaps the leading motto is in the harmony between our patrons; Athena and Hermes. Striking a balance in serving both Academy and Commerce is key to the long-term success of the house and will create long-term value for all stakeholders.

We thank all who contributed to the success of Brill in 2016.

Leiden, 31 March, 2017

Herman A. Pabbruwe
Managing Director of Koninklijke Brill NV

# KEY FIGURES

All amounts: x EUR 1,000

| | 2016 | 2015 | 2014* | 2013 | 2012 |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Revenue | 32,177 | 30,809 | 29,601 | 29,284 | 27,527 |
| Gross profit | 21,019 | 20,412 | 19,987 | 19,848 | 18,433 |
| EBITDA [1] | 4,496 | 3,794 | 3,680 | 4,504 | 4,235 |
| Operating profit | 3,712 | 3,015 | 2,675 | 3,478 | 3,238 |
| Profit from continued operations | 2,797 | 2,332 | 2,153 | 2,461 | 2,318 |
| Profit for the year | 2,797 | 2,332 | 2,153 | 2,461 | 5,733 |
| Free cash flow [2] | 2,329 | 3,201 | 822 | 2,634 | 5,616 |
| Net investments in fixed assets | -2,016 | -962 | -2,765 | -1,185 | 1,554 |
| Average invested capital [3] | 21,049 | 21,223 | 21,120 | 20,697 | 20,378 |
| **Growth compared to previous year** | | | | | |
| Revenue | 4.4% | 4.1% | 1.1% | 6.4% | 0.5% |
| Gross profit | 3.0% | 2.1% | 0.7% | 5.0% | 0.8% |
| EBITDA [1] | 18.5% | 3.1% | -18.3% | 6.4% | -7.7% |
| Operating income | 23.1% | 12.7% | -23.1% | 7.4% | -13.5% |
| Profit from continued operations | 20.0% | 8.3% | -12.5% | 6.2% | -16.6% |
| **Profitability** | | | | | |
| Gross profit as % of revenue | 65.3% | 66.3% | 67.5% | 67.8% | 67.0% |
| EBITDA as % of revenue | 14.0% | 12.3% | 12.4% | 15.4% | 15.4% |
| Operating income as % of revenue | 11.5% | 9.8% | 9.0% | 11.9% | 11.8% |
| Profit for the year as % of revenue | 8.7% | 7.6% | 7.3% | 8.4% | 20.8% |
| Revenue/average invested capital | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 |
| Profit for the year in % of average shareholders' equity | 10.2% | 8.6% | 8.0% | 9.0% | 21.5% |
| **Balance sheet ratios** | | | | | |
| Shareholders' equity / total assets | 58.6% | 58.1% | 59.1% | 61.4% | 62.6% |
| Current assets / current liabilities | 1.75 | 1.73 | 1.83 | 2.01 | 2.03 |
| **Personnel** | | | | | |
| Average number of employees | 132 | 132 | 132 | 123 | 123 |
| Revenue per employee | 244 | 233 | 224 | 238 | 223 |
| EBITDA per employee | 34 | 29 | 28 | 37 | 34 |
| Average personnel costs per employee | 71 | 68 | 63 | 65 | 62 |

* Restated figures.

[1] EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization. This is the operating income before the amortization of intangible fixed assets and the depreciation of tangible fixed assets. See note 23.

[2] Free Cash Flow = Net Cash Flow adjusted for cash flow from financing activities. See note 23.

[3] (Average) Invested Capital = (average of) fixed assets minus deferred tax liabilities related to acquired intangibles + working capital less cash. See note 23.

# DATA PER SHARE

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

| | **2016** | 2015 | 2014* | 2013 | 2012 |
|---|---|---|---|---|---|
| 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 | 14.69 | 14.49 | 14.32 | 14.51 | 14.23 |
| Increase in % | 1.4% | 1.2% | -1.4% | 2.0% | 19.1% |
| EBITDA per share | 2.40 | 2.02 | 1.96 | 2.40 | 2.26 |
| Increase in % | 18.8% | 3.1% | -18.3% | 6.2% | -7.7% |
| Earnings per share | 1.49 | 1.24 | 1.15 | 1.31 | 3.06 |
| Increase in % | 20.2% | 7.8% | -12.5% | -57.1% | 74.6% |
| Free cash flow per share | 1.24 | 1.71 | 0.44 | 1.40 | 2.99 |
| Increase in % | -27.5% | 289.3% | -68.6% | -53.0% | 30.6% |
| Dividend per share | 1.32 | 1.24 | 1.15 | 1.12 | 1.08 |
| Increase in % | 6.5% | 7.8% | 2.7% | 3.7% | 2.9% |
| Pay-out ratio | 88.4% | 100% | 100% | 85% | 35% |
| 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 | 28.00 | 27.95 | 25,83 | 22.90 | 20.50 |
| Lowest share price during the year | 20.95 | 22.70 | 21.95 | 19.25 | 13.50 |
| Share price at year end | 27.73 | 23.36 | 25.73 | 22.14 | 19.50 |

* Restated figures.

## Annual Financial Statements

On the basis of the ongoing appointment by the AGM of PwC as the company's independent auditor, the Supervisory Board instructed PricewaterhouseCoopers Accountants NV to audit the financial statements of Koninklijke Brill NV for the 2016 financial year. For the 2016 financial statements an unqualified independent auditor's report was issued. We therefore recommend that shareholders approve these annual financial statements. We propose distributing a dividend of EUR 1.32 per share (certificate) for 2016.

## 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.

The subject of 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.

Various reports both from the external independent auditor and from the operational auditor are received and discussed on a regular basis. Progress reports on issues from the management letter issued by the external independent auditor receive particular attention. In the bi-annual meetings with the Works Council, issues such as corporate culture and the tone in the company are discussed without the presence of management and staff.

Seven meetings were held in Leiden and eight telephone conferences took place. At all but one meetings the entire Board was present. The higher than usual number of meetings was caused by intensive discussions regarding governance and acquisition opportunities. 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 period. A full Strategic Plan (2017-2019) was prepared in the first half of 2016 for discussion with the Board. 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 evaluation of the Board itself took place in 2016, once again without help from external consultancy. The annual meetings with the external independent auditor to discuss the interim and final reports took place in the presence of the Managing Director and staff. On the occasion of discussing the interim report, 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. Once again the Board has concluded that the internal audit function is sufficiently covered and therefore a fully dedicated internal auditor is not required today, taking into account the size and complexity 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 – is capable of fulfilling 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, as a whole, serves as an audit committee.

The members of the Board need to have sufficient time at their disposal to perform their duties; this applies in particular to the Chairman of the Supervisory Board. The Supervisory Board consists of three persons and is composed as per the profile above. On 24 August 2016 Mr. André van Heemstra stepped down after eight years of service on our Board. We are grateful for the many important contributions he has made to our work and for the additional help and counsel he has provided to the company during his tenure. A special word of gratitude is due for his contribution to the corporate social responsibility policies the company has developed during his tenure. At the extraordinary General Meeting held at 24 August, 2016 Mr. Steven Perrick was appointed as his successor for a term of four years.
The members of the Board are independent within the context of the Dutch Corporate Governance Code.

## 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 2016. The Supervisory Board annually evaluates its instruments and processes in relation to the Code, and in 2016 again decided to depart from the Code with regard to use of certification as a possible method of protection.
In 2016 an extensive consultation with a large number of stakeholders has taken place. There were no transactions with conflicting interests relating to the Supervisory Board and Managing Director. Please refer to the Corporate Governance section for proposed changes in Brill’s corporate governance policy.

## Annual General Meeting of shareholders

On May 19, 2016, 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 1.24 per share). The proposal to appoint a Supervisory Board member was taken off the agenda at the beginning of the meeting. Given the intense and prolonged discussion around governance and the composition of the Board, the meeting was suspended until August 24, 2016 when it was reopened and closed, immediately followed by an Extraordinary General Meeting.

## Extraordinary General Meeting of shareholders

On August 24, 2016, an Extraordinary General Meeting of Shareholders took place at the company's office in Leiden. The proposal presented – the appointment of a new member of the Supervisory Board - was approved.

## Conclusions

The intense but fruitful dialogue with certificate holders and other stakeholders has made 2016 a special and valuable year in terms of introspection and evaluation. A company lives in a dynamic setting and it is important that, from time to time, all stakeholders revisit goals together and manage mutual expectations.

In 2016 Brill once again demonstrated the necessary resilience to withstand significant market dynamics and geopolitical turmoil, while sustaining its chosen strategy. There are certain challenges to consider due to decreasing print book sales and cuts to higher education and library budgets. In the Board’s view, a business able to take practical measures in the short-term, while adhering firmly to a promising, long-term strategy built on service excellence and entrepreneurship, serves the interests of all stakeholders. In the Board's opinion, the company must continue to strive for healthy and sustainable growth and ongoing cost control. Together with a balanced pricing policy, attention to these aspects will enable work to continue on expanding activities and improving profit. Brill has thus far demonstrated success in the migration from print to digital and is well positioned to meet the multimedia needs of the future.

2016 was also a year with considerable improvement in profitability of the company, both as a result of revenue growth as well as the streamlined fulfilment structure. Through this development, and the acquisition of Schöningh & Fink, Brill has further enhanced its market position and its future potential. In view of these achievements, the Board would like to thank all staff for their contribution in 2016.

Leiden, March 31, 2017

Supervisory Board

Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

# SUPERVISORY BOARD

### Steven Perrick, 1949, Dutch (term started August 24, 2016)

Chairman of the Supervisory Board of Koninklijke Brill NV since August 24, 2016, term runs to 2020
Lawyer at the firm of Spinath + Wakkie, Amsterdam
Professor emeritus of Civil Law at the University of Amsterdam
Chairman of the board of Stichting Ammodo
Chairman of the board of Stichting Inphykem
Board member of Stichting Continuïteit NN Group
Vice Chairman of the board of Stichting Preferred Shares Mylan
Ad-hoc justice at the Court of Appeal of Arnhem - Leeuwarden

### André R. baron van Heemstra, 1946, Dutch (term ended August 24, 2016)

Chairman of the Supervisory Board of Koninklijke Brill NV since 2008, up to the AGM 2016
Chairman of the Netherlands Network of Global Compact (GCNL)
Chairman Stichting MEARC (Modern East Asia Research Center)
Board Member of Netherlands Senior Experts (PUM)
Member of the Advisory Board of the Platform for International Education (PIE)

### Catherine Lucet, 1959, French

Member of the Supervisory Board of Koninklijke Brill NV since 2013, term runs to the AGM in May, 2017
Managing Director of Editis Education & Réference and Chair of Editions Nathan
Member of the Supervisory Board and Chair of the Audit Committee of Casino Guichard Perrachon

### Robin Hoytema van Konijnenburg, 1957, Dutch

Member of the Supervisory Board of Koninklijke Brill NV since 2015, term runs to 2019
Executive Director Global Tax & Financial Markets of Heineken International BV
Chairman of the Supervisory Board and of the Audit Committee of Roeminck Insurance NV
Board member Vereniging Effecten uitgevende 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 Africa Foundation

# CORPORATE GOVERNANCE

Koninklijke Brill nv is a public limited company under Dutch law, with its registered office in Leiden. The share capital of the company is divided into ordinary shares and cumulative preference shares. There are currently no cumulative preference shares in issue. Of the issued ordinary shares, approximately 99% are certified and administered by the Stichting Administratiekantoor Koninklijke Brill. Only share certificates are listed on the Euronext Amsterdam stock exchange. The majority of the certificates is held by, mainly private, Dutch investors. More than 60% of the certificates are held in tranches of 3% or more. Koninklijke Brill nv is a statutory two-tier company. The articles of association, available on the company's website, regulate inter alia the appointment and dismissal of Supervisory Board and Management Team members and the amendment of the articles of association.

Brill is a relatively small, highly specialized and profitable publisher, active in the same areas as a number of very large publishing companies. In order to pursue its mission, continuity and independence are required. Therefore, management deems protection from hostile takeovers to be necessary. Accordingly, the company has a number of defensive constructions, including 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. Moreover, 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 Koninklijke Brill 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.

The conversion of share certificates is possible on a limited basis by means of a provision in the articles of association of the company, limiting conversion to 1%. In addition, shareholding is limited to individuals, the company itself, the administration office foundation, and companies that were shareholders in the past (before July 29, 1997).

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

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

A number of responsibilities have been allocated to the Combined Meeting - the joint meeting of the Supervisory Board and the Managing Director. 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 company's Management Board currently consists of one person, assisted by a Management Team. Thus, Brill cannot meet the requirement of a balanced composition of the ratio of women to men in the Management Board. The company has a Supervisory Board, normally consisting of three persons of which one is currently female. The Supervisory Board has not appointed separate committees and does not intend to do so in the near future. The recommendations made by the successive Dutch Corporate Governance Committees form part of the corporate governance structure, except for the policy on the trust office as a means of protecting the company.

The Supervisory Board and the Managing Director meet annually to discuss the ways in which best practice guidelines and compliance with current legal requirements are implemented. 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, with the exception of the use of share certificates as a defensive mechanism.

In the area of transparency between the Managing Director and the Supervisory Board, and between Supervisory Board members, clear agreements have been made. The Managing Director's employment agreement is drawn up in line with the best practice provisions of the code. Within the company there are strict rules of conduct and regulations, including regulations on insider trading, sexual intimidation, and rules for misconduct reporting.

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 that the company deserves maximum protection.

The Supervisory Board and the Managing Director 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 for a strategy focused on long-term sustainable growth. Sustainable growth for the company is, in turn, largely dependent on its 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 Managing Director and the Supervisory Board have always been of the opinion that these can be seen as further supplementing and refining 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 recent release of the proposed update for the Dutch Corporate Governance Code was followed with great interest by the Managing Director and the Supervisory Board. In 2017 its potential benefits and implications will be reviewed in detail but we do not expect that this review will lead to fundamental changes to the Corporate Governance structure in place.

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 Managing Director are of the opinion that the proposed revised rules and the extended duty of compliance clearly contribute to improvement in managing the company.

Supervisory Board
Managing Director

# REMUNERATION POLICY

## 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. They 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 an expert third party. The last time remuneration was adjusted was in 2012. Brill has established rules governing the holding of and transactions in securities, other than those issued by Brill, by Supervisory Board members.

## Remuneration Policy, Managing Director

The remuneration of the Managing Director is determined by the Supervisory Board on the basis of 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 Managing Director is designed, in regard to the amount and structure of the Managing Director's remuneration, 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 Managing Director's remuneration is in line with the market development. The remuneration for 2016 and following years has a fixed and two performance-related variable components of which one is for the current year and the second for a three-year horizon.

The Supervisory Board decided to increase the Managing Director's fixed remuneration as of 1 January 2016 by 2%. Furthermore, 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 company does not grant loans, advances, or guarantees to the Managing Director.

A With regard to the remuneration policy, 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 key drivers for growth and growth of shareholders' value in the short and medium term. Variable compensation, determined by performance metrics, therefore, forms 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 2016 the variable remuneration of the Managing Director depended on a combination of short-term and long-term performance criteria. Details on the performance criteria and performance assessment regarding 2016 are included in the financial statements, note 21.

D No rights are allocated to the Managing Director for the acquisition of options or shares. Ownership of Brill shares by the Managing Director is seen as long-term investment.

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

## Risk Management policy

The risk management policy of the company was updated in the context of the 2017 – 2019 strategic plan. The company adopted an approach that is consistent with the scale of operations, its ambitions and its organization structure.

Risk management is a key element of Brill's overall management structure. Risks classified as having strategic impact are discussed with the Supervisory Board biannually, before Brill's results are released, 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 the 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 appetite ratings should be interpreted as ranking measures rather than it being an absolute, calibrated, proportional measure of risk.

## 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
- Execute on its strategy

Risk management is the responsibility 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. An Operational Auditor conducts periodical tests and reviews of the set up and workings of selected financial and other controls. The selection is 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 receives and reviews all reporting by the external independent auditor and pertinent reporting by the operational 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.

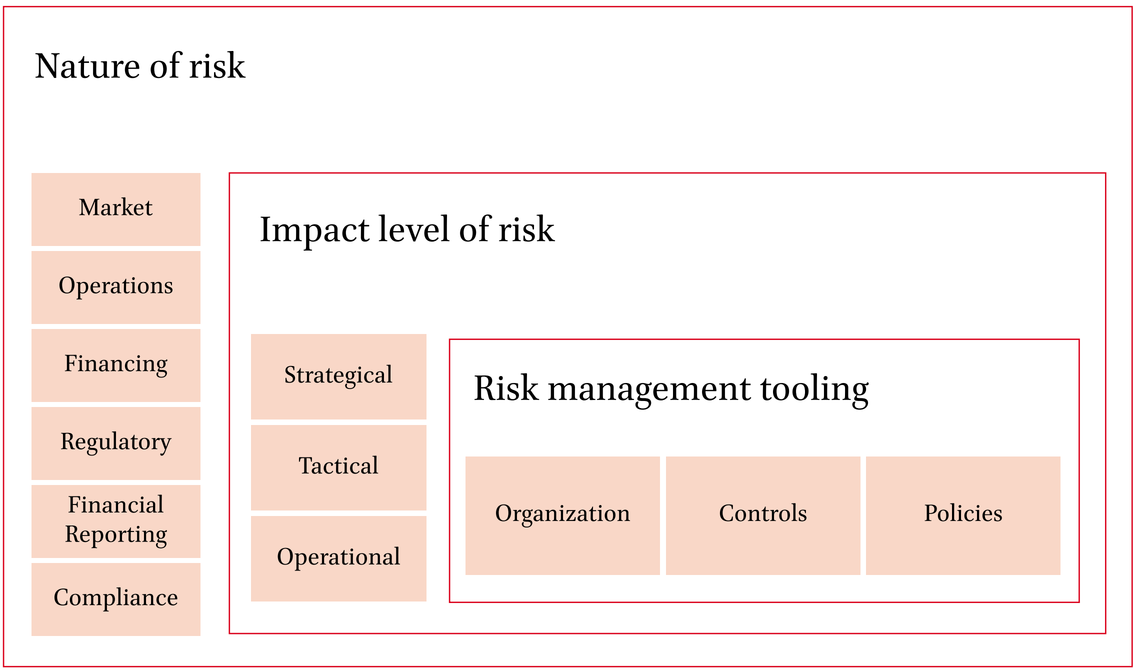
## Risk Classification

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 includes IT 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 to management 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.

Brill's Risk management analysis and tooling frame-work can be summarized as follows:



## Discussion of specific risks with impact at the strategic level

This report summarizes Brill's business strategy and the ways in which the company creates sustainable value for its stakeholders. The risks set out in this overview have been classified per a system described above and linked to the objectives pursued in Brill's strategy, the company's applicable risk appetite, and the mitigation strategies in place.

| Nature of the Risk | Description of the Risk | Objective threatened | Risk Appetite (1=lo & 5=hi) | (Type of) Mitigation in place |
|---|---|---|---|---|
| Market | 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 | Expand in current and adjacent segments | 1 | *Organizational:*<br>Organizational structure that enables the company to react and adapt flexibly to changing market circumstances.<br><br>*Business policies:*<br>Editorial policies, Communication policy, Investor relations policy, Various compliance policies. |
| | 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:*<br>Increased focus on repeatable business, expansion into adjacent market segments, tap alternative funding sources (ERC.) |
| Operations | Outsourcing risk - may impact business continuity or quality and pricing of services used leading to reduced competiveness. | Enhance operating capacity | 1 | *Organizational:*<br>quality of Brill staff<br><br>*Internal controls:*<br>SLA's, vendor selection process<br><br>*Business policies:*<br>insurance, contingency and back-up measures |
| | HR Risk – we may not be able to attract and retain the right staff | Achievement of strategic plan | 2 | *Business policy:*<br>Develop Brill reputation and culture as attraction and retention mechanism |
| | 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 | *Internal controls:*<br>Segregation of duties, IT user policy<br><br>*Business policies:*<br>Contingency and back up measures, security measures, communication on IT and cybersecurity risks |
| Financing and other | Significant swings in the USD exchange rate may impact our results | Improve financial performance | 2 | *Business policies:*<br>Hedging policy (refer to financial statements) |

| Nature of the Risk | Description of the Risk | Objective threatened | Risk Appetite (1=lo & 5=hi) | (Type of) Mitigation in place |
|---|---|---|---|---|
| | Deteriorating business performance may lead to impairment of our intangible assets which could cause substantial erosion of equity. | Improve financial performance | 2 | *Internal controls:*<br>Annual review of the value of intangible assets<br><br>*Business policies:*<br>Conservative valuation calculations when doing acquisitions, reduction of assets required to run the business |
| | Investors may not be willing to fund Brill's strategic plan | Expand in current and adjacent segments | 1 | *Business policies:*<br>Investor relations policy, focus on financial performance improvement<br><br>*Internal controls:*<br>Framework of controls aimed at financial reporting reliability. |
| Regulatory | EU Open Access policy may impact our ability to further grow our journal business | Expand in current and adjacent segments | 2 | *Business policies:*<br>In addition to our journal subscription business we develop our database (subscription) business which is not touched by this policy. |

## Risk management and internal control in 2016

In 2016 Brill made progress in further enhancing the company's framework of internal controls, based on recommendations made by the external independent auditor and the operational auditor and on guidance by the Supervisory Board and the Managing Director. Specific improvements were made in segregation of duties regarding key IT systems and clarification of rules around end-user IT. Furthermore, we refined our currency hedging policy to also cover expenses incurred in US dollar. Improvements in controls concerning client access to our online databases are included in the scope of our program to renew Brill's online presence which has its main implementation effort in 2017.

The 2016 interim review performed by the external independent auditor reported several issues and recommendations for improvement that were outstanding by the end of 2016. These recommendations primarily focus on deficiencies in the IT general controls which impact Brill's ability to demonstrate the control's effectiveness through documentation and alignment of policies. The Supervisory Board has agreed with the Management Team that measurable improvements will be implemented in 2017.

## 1. General Report 2016

### Company Profile

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 to pursue the company's key activity 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 public 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 primarily a broadly oriented humanities 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 prepress, 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, and Schöningh & Fink effective 1 January 2017. Brill currently uses four of these imprints: Brill | Nijhoff, Hotei, Brill | Hes & De Graaf and Brill | Rodopi and maintains the Schöningh & Fink imprints following the acquisition. 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 is also a supplier of important primary source material, including scans of historic archives and collections of documents. During the last ten years, the format of these research collections has migrated from micro film and fiche to digital.

Brill pursues a dual format publishing policy, increasingly based on a digital-first process. Books, unlike in the fields of natural sciences and engineering where they have largely been replaced by journals, play a major role at Brill. Digital sales have risen substantially in recent years and have become the prevailing format. Brill distributes the e-version of its products through third parties as well as directly, thereby strengthening its position and the dissemination of publications entrusted to us by our authors. Customers can choose the form in which to access the desired information thanks to Brill's fully digital publishing process and multimedia file formats. Due to the long-term value of scholarly information in the humanities, the life span of our products is generally long. Brill still sells substantial quantities of older titles from its stock, or has these reprinted in small runs using new technology (digitization on demand and printing on demand). Since 2007 all 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 in other countries. Some three-quarters of our clients are in Europe and North America. 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. Electronic publishing and the inclusion of data sets also border the emerging field of digital humanities. One of the ways to look at this new discipline is by comparing it with digital research strategies that have developed in other fields of scholarly work. 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 and will help clarify data by showing their geographical dimensions. *Semantic search* and related technologies will allow deep searching of text. *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 of 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 scholarly research contributes to Brill's image as a forward-looking publisher.

The exploratory work in the digital humanities is presently concentrated in Western Europe and North America, however, before long it will become a vital element of new research activities across the globe.

## Publishing Program

A fair number of new publications and new editions of established product has seen the light in 2016. For the first time, we published the standard in the field of Arabic Literature by Carl Brockelmann (1868-1956) in the English language. Also the Journal of World Literature was launched and well received. The field of literature studies is showing attractive growth potential and was boosted by the acquisition of Rodopi in 2014.

With financial support of the Sheikh Zayed Book Award, received in 2012, we posted a freely available thesaurus for Islamic Studies, helping authors to hyperlink their writing to a great number of entries in Brill's extensive reference library. In conjunction with the Qatar Foundation a peer reviewed Open Access journal on Islamic Law and Ethics was signed for launch in 2017.

After the launch of the Encyclopedia of Chinese Language and Linguistics On Line we saw the publication of the five volume print edition of this important reference work.
The religious and biblical studies list had a stellar year with major launches such as the first volume of the impressive Textual History of the Bible, both in print and on line, and Flavius Josephus On Line. Also the World Council of Churches On Line is worth mentioning with the World War II Era Records. Apart from a number of other major reference works the program saw the launch of new journals such as Biblical

Interpretation and the Gnosis journal. Classic Studies published the first English Brill's New Pauly Supplement series and the Lexicon of Greek Grammarians of Antiquity. After a few years of investing the programs really showed excellent growth.

In Law the 5th edition of Rosenne's Law and Practice of the International Court was published and the Encyclopedia of Law and Religion was launched in five volumes. A new journal on Asia-Pacific Ocean Law and Practice was added to the six Brill's Research Perspectives series which were developed in previous years.

For the History list the primary source collection of the Prize papers saw a third installment which makes the collection much more valuable. The publication of the digital primary source collection Codices Hugeniani is a major development in the History of Science program. This program will offer many opportunities for development of software tools in the context of digital humanities. The new journal on research data in conjunction with the DANS institute of the Royal Dutch Academy of Arts & Sciences will support this development. The Encyclopedia of the Middle Ages was followed by the first two volumes of the monumental Encyclopedia of Early Modern History, translated from the German edition that Brill is hosting online as well. The recently acquired program of Hes & De Graaf was enriched by reference works on historic cartography; the volume on Fredrick de Wit deserves a special mention.

## Marketing and Sales

Brill's sales efforts are focused on the libraries and electronic networks of major universities. 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 in turn often made through third parties; journal agents act as intermediaries for subscriptions and traditional library suppliers have in part transformed into electronic middlemen. Consolidation in the industry continued in 2016 with Follett acquiring both Baker & Taylor and Bookmasters, two key business partners for Brill in the US. These unforeseen developments, along with the multitude of new sales and pricing models, such as the 'short-term loan' option for digital products, make the distribution of scientific publications all the less predictable.

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 in 2016 Yewno has increased 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. The offices in Boston and Singapore increase access to and interaction with the key overseas markets.

## Organization and Employees

Brill is a centrally managed company with a number of 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 disciplines in which Brill operates. Publishers 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.

## Value creation at Brill

At Brill we believe that our continued ability to create long-term value for all our stakeholders is essential to the long-term sustainability of the company. The company's continuity and ability to create value hinges on achieving a balance between commercial forces and serving the world of knowledge, and on adequately prioritizing relationships in social and economic life. This is why we define value in terms of value created for our stakeholders. This value creation, and Brill's resulting reputation towards each of these stakeholder groups is the key condition for our company to remain relevant within a changing media landscape.

### *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 on the basis of 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. Importantly, Brill has the investment capabilities for more complex and capital-intensive projects. Authors know that Brill has access to the world's premier libraries through its distribution system and that Brill will work with them or their institution in various commercial models. In 2016 we have again invested in our ability to better serve authors by implementing support tooling on our website, indexing our books on services like Yewno and Google Scholar and improving our content management workflow.

### *Librarians – Account Service Value*

Our publications can be found in the most eminent institutions within each field in which we publish. In working with these institutions we strive to offer flexible and attractive models that enable libraries to work with us efficiently. We offer our content through platforms which enable them to provide their patrons with swift and easy access to our publications. We provide them with data and tools to evaluate the use of our services to their patrons and to calibrate their purchasing decisions. We work with global distribution partners that enable efficient ordering processes. In 2016 we have realized a POD capability on US soil, reducing fulfillment time for POD books from three weeks to one week on average which helps librarians improve the service provided to their patrons.

### *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 particular 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. In 2016, Brill embarked on an initiative aimed at improving the online experience, with an objective to launch a new online research platform and web presence by the end of 2017.

For those readers preferring the print format we aim for quality and service by working with Printing On Demand providers in the Netherlands and the US respectively who are quality leaders in their hemisphere. Those customers preferring the print option value a high quality product which is available for use within a short period of time and the implementation of a dual POD structure further delivers value in that context.

## *Investors – Economic Value*

The economic value created for our investors is determined directly by the company's ability to grow the business on the one hand, and do so profitably on the other hand. The resulting prospect for 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 provides a steadily growing output in the form of scholarly books and journal articles. Brill's ability to grow the business rests on its success in 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 always remain intimate with the changing market preferences for alternate business models and ensure appropriate geographical coverage e.g. 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. 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 by the proportion of revenue that is converted into income as measured by Net Operating Profit Less Adjusted Taxes (NOPLAT), which is driven by:

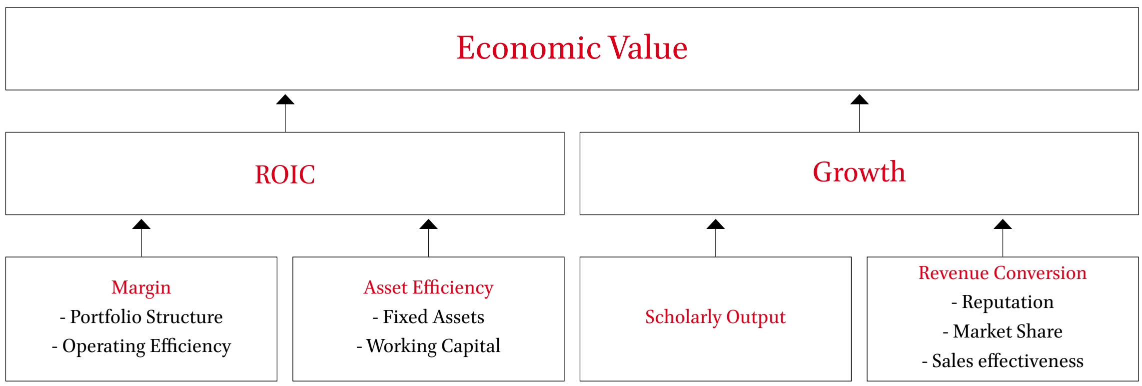
- Cost of Goods Sold;
- Personnel costs and other operating expenses;
- Depreciation and Amortization of fixed assets;
- Taxation.

We believe that, even more than continuous improvements in operating efficiency, the structure of our product portfolio is paramount to long-term improvement of margin. This relates to the proportion of revenue generated through journals and other recurring revenue publications, the proportion of revenue generated through digital products, as well as the value we add to the content.

*Asset Turnover* – as measured by the average amount of invested capital required to support the revenue. Key asset categories recognized are
- Goodwill and Publishing rights, net of deferred tax liabilities related to these assets;
- Tangible and intangible assets;
- Working Capital.

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 2016, Brill reported progress on all economic value drivers. Revenue grew by 4.4% and ROIC increased from 10.5% to 12.9% (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, given that the company has limited size. Staff values their employment because of the 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.

### *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 several key areas of scientific development. Doing so 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 other stakeholders, 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 around our Corporate Sustainability policy, please refer to the relevant chapter in this report.

## 2. Financial Report 2016

In 2016, Brill showed considerable progress towards the stated objective of improving profitability. A key driver of improved profitability was the growth in digital sales but we also saw good contributions from our improved distribution and production arrangements.

### Revenue

In 2016, Brill's revenue increased by 4.4% to EUR 32.2 million (2015: 30.8 million). This growth, which was fully organic, compares to 2.5% organic growth in 2015. Key drivers for our organic growth in 2016 were digital publications including eBooks, major reference works, journal subscriptions and primary sources, whereas print books declined due to a somewhat reduced publication output and changing market preferences.

| (in EUR thousand) | Revenue | % of total Growth | Year on Year Growth |
|---|---|---|---|
| Revenue 2015 | 30,809 | | |
| Print books | -650 | -2.1% | -4.9% |
| eBooks | +1,462 | +4.6% | +21.0% |
| Journals | +450 | +1.5% | +5.2% |
| Primary Sources | -278 | -0.9% | -20.2% |
| Change in hedging | +392 | 1.3% | n.a. |
| Other | -8 | 0.0% | n.a. |
| **Revenue 2016** | **32,177** | **+4.4%** | **+4.4%** |

Revenue generated through digital products was EUR 17.3 million or 54% of total, up from 49% in 2015; an increase of 2.2 million or 15%. Revenue generated through subscriptions was EUR 13.4 million or 42% of total, up from 12.8 in 2015; an increase of EUR 0.6 million or 5%.

Across combined print and digital formats, books grew by 6% and journals by 5% reflecting 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 or 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 positive by EUR 0.3 million. In 2015 we benefited from a major one-time microfiche deal whereas in 2016 we had various successful sales of online primary sources and eBooks in Asia and the Middle East.

The strength of the US dollar in 2016 had a clear effect on revenue, partly because of consistent foreign currency hedging. Particularly in the first half of 2016, as expected, Brill was able to reap the benefits of higher income resulting from the translation of US dollar income in Euro at a higher effective rate.

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

Underlying Cost of goods sold increased by EUR 0.2m or 2%, supporting an underlying gross margin improvement 66.3% to 67.0%. This is the result of revenue growth, a more favorable sales mix and cost reductions in print. Reported Cost of goods sold however increased by EUR 0.8m or 8% in 2016 due to material non – recurring, non-cash items:

| (in EUR thousand) | 2016 | Of which | | 2015 | Growth | |
|---|---|---|---|---|---|---|
| | | Underlying | One-off | | Total | Underlying |
| Technical production, content & shipping costs | 9,703 | 9,538 | 165 | 9,558 | 145 (1.5%) | -20 (-0%) |
| Amortization intangibles | 138 | 138 | 0 | 155 | -17 (-11%) | -17 (-11%) |
| Royalties | 1,317 | 937 | 380 | 684 | 633 (93%) | 253 (36%) |
| **Total Cost of goods sold** | **11,158** | **10,613** | **545** | **10,397** | **761 (8%)** | **216 (2%)** |

In the underlying technical production, content and shipping costs, expected increases in content costs were compensated by lower print costs as a result of lower print sales as well as lower prices. Also, our Printing On Demand policy, which leads to lower stock levels, resulted in a lower provision for obsolescence.

The underlying cost of royalties increased as a result of the success of several third party publications which were translated and adapted by Brill for the online and global markets.

Cost of goods sold was further impacted by significant non-recurring, non-cash items of EUR 545 thousand (2015: EUR 0). The divestment of the *International Year Book* lead to a one-time write down of EUR 165 thousand. Furthermore, when analyzing our position of pre-paid royalties, we concluded we need to write down EUR 384 thousand which was prepaid on two publications for which we had to revise our prospects. The positions mentioned were by far the largest prepaid royalty positions in our balance sheet and no further future write-down could have a similar impact.

Personnel costs increased by EUR 0.3 million or 3% in 2016 (2015: 8%). The increase was driven by 2% organic increases in salary costs (Collective Labor Agreement and merit, FTE change and mix) and 1% from a lower proportion of salary costs allocated to Work in Progress.

Other operating costs declined by EUR 0.4 million or 5.3% versus 2015. The key driver of this decline was the benefit of the new distribution arrangement leading to lower fulfillment cost.

## Depreciation and amortization, and financing revenues and costs

At EUR 0.8 million, depreciation and amortization were in line with 2015. We regard this number as being temporarily low given our current investment activities to realize editorial efficiencies and to renew our digital platforms. Financing income declined slightly because of foreign currency results amounting to EUR 0.1 million (2015: EUR 0.2 million). Financing costs were in line with last year.

## Profit

The increase in profit was driven mainly by a combination of accelerated organic revenue growth whereas lower operating costs compensated for the underlying increase in personnel costs. As a result, EBITDA increased substantially by EUR 0.7 million or 18.5% and operating margin (EBITDA/Revenue) improved to 14.0% (2015: 12.3%). EBITDA was impacted by EUR -0.5m due to the non-recurring items reported in the analysis of cost of goods sold. Net profit amounted to 8.7% of revenue (2015: 7.6%) mainly as a result of the higher EBITDA performance.

The number of outstanding shares remained the same relative to 2015. As a result, earnings per share amounted to EUR 1.49, up by 20.2% from 2015 (EPS 2015 EUR 1.24).

## Operating Working capital and Cash flow

Operating Working Capital (excluding cash), increased by EUR 0.2 million in 2016. Inventories (physical and content) declined by EUR 0.2 million as a result of lower physical stock. Despite the higher revenue level, Trade accounts receivable showed a decline of EUR 0.3 million. Other receivables declined by EUR 0.6m. However, total receivables however remained stable due to the prepaid portion of acquisitions. Deferred income increased by EUR 0.2 million. Free cash flow was EUR 2.3 million, down from EUR 3.2 million in 2015. The change can be analyzed as follows:

(in EUR thousand)

| | |
|---|---|
| Free cash flow 2015 | 3,201 |
| Operating cash flow | +1,075 |
| Acquisition pre-payments | -890 |
| Increase in other capital investments | -179 |
| Increase in tax payments and receipts | -878 |
| Free cash flow 2016 | 2,329 |

## Return on Invested Capital

Return on Invested Capital (ROIC) improved to 12.9% versus 10.5% in 2015. Improvements in both Operating margin and asset turnover contributed to this improvement. Operating margin improved as a result of accelerated revenue growth and limited cost development. Asset turnover improved largely due to revenue growth combined with a slight reduction in average invested capital.

## Solvency

The balance sheet total (EUR 47.0 million) increased relative to 2015 (EUR 46.7 million). Non-current assets increased by EUR 0.2 million and current assets were almost flat versus 2015. Equity amounted to eur 27.5 million at the end of 2016 (EUR 27.2 million at the end of 2015). Solvency improved to 58.6% in 2016 (2015: 58.1%), which brings solvency to the high end of our target range of 40-60%.

## Stock exchange listing

The Supervisory Board and the Managing Director 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 stakeholder's orientation. In the scholarly market it serves, Brill is on a long-term course that links continuity and quality to sustainable growth and a healthy return. Because of the listing, Brill's holders of certificates of shares have the benefit of certain liquidity, which is of particular 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 2016, 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. In line herewith and supported by the encouraging improvement of results in 2016 we will propose to the General Meeting of Shareholders that will be held on 16 May 2017, an all-cash dividend for 2016 of EUR 1.32 per share. This proposal reflects our healthy cash balance at the end of the year and our confidence in further improving results in the future.

## Outlook

Brill's annual reports do not include concrete statements about future developments in terms of revenue and results. Our focus is on further development of the publishing program and streamlining of the organization, whereas longer term we seek to expand and enhance the portfolio in terms of faster growing, recurring revenue streams This makes the company cautiously optimistic about the future, especially about further improving profitability. We expect the acquisition of Schöningh & Fink to add around EUR 3 million in revenue, and to be accretive to profit in 2017.

# 3. Human Resources

## Organization

The key internal factor determining the success of the company is its personnel. It is therefore very 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 Managing Director, who is also responsible for Publishing (in his capacity of Executive Vice President - EVP - Publishing), business development and HR policy. The Management Team includes the Managing Director, the EVP Sales & Marketing and the EVP Finance & Operations. The Operations department supervises activities in the fields of mostly outsourced pre-press, printing and binding, logistics and distribution, copy editing, metadata management, electronic publishing technology, and IT. Brill's subsidiaries have directors who are locally based and who combine this with their primary sales or publishing roles. They have regular meetings with the three other directors who are part of 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.

The Publishing Directors (4 FTEs) play a crucial role in publishing activities, Brill's primary process. Both Publishing Directors and (Senior) Acquisitions Editors and Assistant Editors are responsible on a rotating basis for coordinating and optimizing cooperation with other departments, as well as for interdepartmental business processes.

## Developments in staff

The average workforce remained about the same in size in 2016 relative to the preceding year and amounted to an average of 131.7 FTEs (2015: 131.9 FTEs). The total workforce engaged on a full-time basis at year-end showed an increase of 4.7 FTEs from 128.6 to 133.3 FTEs. This increase was anticipated and mainly the result of the realignment and expansion our sales and marketing activities and necessary growth of our operational departments to enhance our online publishing activities.

| FTE's | Year end 2016 | Year end 2015 |
|---|---|---|
| Publishing Activities | 49.3 [36.9%] | 52.7 [41.0%] |
| Operations * | 43.8 [32.9%] | 38.9 [30.2%] |
| Sales & Marketing | 27.8 [20.8%] | 24.7 [19.2%] |
| Other ** | 12.4 [9.3%] | 12.4 [9.6%] |

*) 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.

At the end of 2016, 25.2 FTEs (2015: 23.4 FTEs) were working outside the Netherlands (from Brill's offices in Boston and Singapore, as well as from home offices in the United Kingdom, Canada, Germany and Switzerland).

In terms of the ratio of men to women, the share of women decreased in 2016 from 61.7% to 60.3%.
The share of part-time workers showed an increase and made up 39.7% (2015: 36.9%) of the workforce in 2016.
Sickness leave showed a strong increase from 2.7% in 2015 to 4.2% in 2016, mainly caused by individual cases of long-term (non-work related) health issues.

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

| AGE | 2016 | 2015 |
|---|---|---|
| 20 - 29 years | 11.0% | 9.9% |
| 30 - 39 years | 26.7% | 26.3% |
| 40 - 49 years | 24.7% | 26.2% |
| 50 - 59 years | 26.7% | 27.7% |
| Older than 60 years | 10.9% | 9.9% |

The average age decreased in the year under review from 45.0 at the end of 2015 to 44.8 at the end of 2016. The outflow of personnel in 2016 was 7.0%, whereas the inflow was 10.5%:

| FTE's outflow | 2016 | 2015 |
|---|---|---|
| Retirement | 1.7 | 1.9 |
| Brill initiative | | |
| Temporary contracts | 3.1 | 1.7 |
| Other | 0.7 | 6.7 |
| **Own initiative** | | |
| Employment 0-2 years | 0.7 | 2.7 |
| Employment 2-5 years | 1.0 | 1.0 |
| Employment 5-10 years | 2.0 | |
| Employment 10-15 years | | 1.6 |
| **Total FTE outflow** | 9.2 | 15.6 |
| **Total outflow in %** | 7.0 | 11.8 |

| FTE's inflow | 2016 | 2015 |
|---|---|---|
| **Acquisitions / divestment** | | |
| Temporary position | | |
| Permanent contracts | | |
| **Other** | | |
| Temporary contracts | 8.1 | 5.9 |
| Permanent contracts | 5.8 | 4.7 |
| **Total FTE inflow** | 13.9 | 10.6 |
| **Total inflow in %** | **10.8** | 7.9 |

In 2016, 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.

## Report by the Works Council

In 2016 a wide range of subjects and issues was covered. The Collective Labor Agreement (CLA) and associated topics were (and remain) firmly on the agenda. The implementation of a Persoonlijk Keuzebudget (PKB) system was one of the biggest changes this year within the context of the CLA. Furthermore, at the beginning of our term, we started a discussion about a good framework for possibilities for Brill personnel to structurally work from home. The pilot for this project ran the length of 2016 and is expected to be completed with a final evaluation in the beginning of 2017. The framework to be installed for working from home should reflect the new CAO agreement. Another HR related point of attention concerned social security benefits in the Netherlands with regard to disability insurances.

In September the Works Council advised in favor of the implementation of RSuite, a new workflow management system for our journals, and books. In addition, the Works Council advised positively on the development of a new platform and website, which will come to completion in the course of 2017. Finally, the Works Council advised in favor of the appointment of a new chairman of the Supervisory Board and the acquisition of Schöningh & Fink in Germany.

Throughout the year, the Works Council continued to monitor issues of direct key importance to Brill employees, such as Brill's HR policy, strategic developments, and corporate culture. Contact with the Boston office has been formalized. Even though the Works Council does not formally represent local staff, it is convenient to have a direct liaison there to facilitate the information exchange. We intend to do the same for Brill's offices in Singapore and Paderborn.

In the same spirit as previous year, aided by short lines of communication, the Works Council was able to work with the Managing Director in a positive and constructive way. Two meetings were held in the same good spirit with the Supervisory Board during 2016. 2017 will bring the current term of the Works Council to a close; in April new elections will be held for the 2017-2019 term.

## 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. In carrying out 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 2017-2019

In order to achieve Brill's mission, the corporate strategy centers around three goals:

- *Expand market position*
  We will 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 on the basis of 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 will invest 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 will be further developed to improve efficiency and effectiveness of our marketing operation.

- *Invest in Operations*
  We will invest in the performance and scalability of our operations to facilitate and support the development of the business. 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 Semantico. 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 will enable us to operate within our objective EBITDA margin range of 15-20% and achieve a long-term average organic growth slightly in excess of 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 plays a vital role within 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 very clearly 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 influence of their research by publishing nationally and internationally and how to make the best use of the resources they have in place. 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. In many ways, Brill cooperates closely with its partners in emerging markets to increase their impact and facilitate high-quality international publishing.

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.

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 company with a long standing, reputable history, Brill takes its responsibilities as a corporation to heart. The company wishes 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 on the basis of price and quality. In addition, all of these 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. The contracts that Brill signs with its suppliers and distributors contain unequivocal provisions pertaining to social conditions (the exclusion of child labor, for example) and the substances and materials to be used. Shady practices to ensure a sale to a customer or middleman are not tolerated. The payment of commissions to representatives and the like must be reported in full at all times. 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.

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 2016.

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. It should be understood that these measures can provide reasonable but not absolute assurance against material losses or material errors.

As required by the provisions of II.1.5 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:

- Brill's internal control systems and risk management framework with respect to financial reporting risk
  - provide a reasonable assurance that the financial statements in this Annual Report 2016 does not contain material errors;
  - worked properly during 2016
- the 2016 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 2016 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 report describes the principal risks that Brill faces.

Leiden, 31 March, 2017

Herman A. Pabbruwe
Managing Director

# FINANCIAL STATEMENTS FOR THE YEAR 2016

# CONTENTS

# CONSOLIDATED BALANCE SHEET

In thousands of euro's, as per 31 December

| | 31-12-2016 | 31-12-2015* |
|---|---|---|
| **Assets** | | |
| **Non - current assets** | | |
| Tangible fixed assets [4] | 303 | 436 |
| Intangible fixed assets [5] | 19,052 | 18,724 |
| | 19,355 | 19,160 |
| **Current assets** | | |
| Inventories [7] | 13,179 | 13,302 |
| Trade and other receivables [8] | 8,002 | 7,971 |
| Income tax to be received | 34 | 0 |
| Derivative financial instruments [13] | 117 | 0 |
| Cash and cash equivalents [9] | 6,304 | 6,299 |
| | 27,636 | 27,572 |
| **Total assets** | 46,991 | 46,732 |
| **Equity and liabilities** | | |
| **Equity attributable to owners of Koninklijke Brill NV** | | |
| Share capital [10] | 1,125 | 1,125 |
| Share premium | 343 | 343 |
| Retained earnings | 23,577 | 23,569 |
| Other reserves [10] | -308 | -203 |
| Undistributed profit | 2,797 | 2,332 |
| | 27,534 | 27,166 |
| **Non – current liabilities** | | |
| Deferred tax liabilities [6] | 3,693 | 3,626 |
| | 3,693 | 3,626 |
| **Current liabilities** | | |
| Trade and other payables [12a] | 6,789 | 6,812 |
| Deferred income | 8,439 | 8,189 |
| Provisions [12b] | 0 | 104 |
| Derivative financial instruments [13] | 422 | 184 |
| Income tax to be paid | 114 | 651 |
| | 15,764 | 15,940 |
| **Total liabilities** | 46,991 | 46,732 |

** figures restated for fixed asset reclassification, refer note 5*

## CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016, in thousands of euro's

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **Gross profit** | | | | |
| Revenue [15] | | 32,177 | | 30,809 |
| Cost of goods sold [16] | | -11,158 | | -10,397 |
| | | 21,019 | | 20,412 |
| **Expenses** [16] | | | | |
| Selling and distribution expenses | -5,735 | | -6,349 | |
| General and administrative expenses | -11,572 | | -11,048 | |
| **Operating profit** | | 3,712 | | 3,015 |
| | | | | |
| Finance income [17] | | 147 | | 221 |
| Finance expenses [17] | | -46 | | -68 |
| **Profit before income tax** | | 3,813 | | 3,168 |
| | | | | |
| Income tax expense [6] | | -1,016 | | -836 |
| | | | | |
| **Profit attributable to shareholders of Koninklijke Brill NV** | | 2,797 | | 2,332 |
| | | | | |
| **Other comprehensive (expense) income – items that might be reclassified to future profit or loss statements** | | | | |
| Exchange rate differences in translation of foreign operations [10] | | -24 | | -20 |
| Cash flow hedges [10] | | -108 | | 235 |
| | | -132 | | 215 |
| Income tax relating to these items | | 27 | | -59 |
| | | -105 | | 156 |
| **Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV** | | 2,692 | | 2,488 |
| | | | | |
| **Earnings per share (EPS)** [18] | | | | |
| Basic and diluted earnings per share attributable to shareholders of Koninklijke Brill NV | | 1.49 | | 1.24 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016, in thousands of euro's

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit before income tax | 3,813 | | 3,168 | |
| Adjustments for | | | | |
| Amortization and Depreciation | 861 | | 933 | |
| Finance income – net | -102 | | -153 | |
| Loss on divestments | 217 | | | |
| Change in operating assets and liabilities | | | | |
| Change in working capital | 1,203 | | 1,034 | |
| Change in provisions | -104 | | -89 | |
| **Cash generated from operations** | | 5,888 | | 4,893 |
| Interest paid | -34 | | -60 | |
| Income tax paid | -1,494 | | -670 | |
| **Net cash flow from operating activities** | | 4,360 | | 4,163 |
| **Cash flow from investing activities** | | | | |
| Investment in tangible fixed assets [4] | -70 | | -190 | |
| Investment in intangible fixed assets [5] | -976 | | -730 | |
| Payments for publishing rights, net of cash acquired [3] | -95 | | -42 | |
| Prepayment for acquisitions [8] | -890 | | 0 | |
| **Net cash flow from investing activities** | | -2,031 | | -962 |
| **Cash flow from financing activities** | | | | |
| Dividend paid to company shareholders [19] | -2,324 | | -2,156 | |
| **Net cash flow from financing activities** | | -2,324 | | -2,156 |
| **Net cash flow** | | 5 | | 1,045 |
| **Cash and cash equivalents as per January 1st** | | 6,299 | | 5,254 |
| Net cash flow | | 5 | | 1,045 |
| **Cash and cash equivalents as per December 31st** [9] | | 6,304 | | 6,299 |

** Restated, 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] | Undistri-buted Profit | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as per January 1st 2015** | 1,125 | 343 | 23,572 | -103 | -256 | 2,153 | 26,834 |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the year | 0 | 0 | 0 | 0 | 0 | 2,332 | 2,332 |
| Other comprehensive income | 0 | 0 | 0 | -20 | 176 | 0 | 156 |
| **Total comprehensive income for the period** | 0 | 0 | 0 | -20 | 176 | 2,332 | 2,488 |
| **Total contributions by and distribution to owners** | | | | | | | |
| Dividends paid over prior year | 0 | 0 | 0 | 0 | 0 | -2,156 | -2,156 |
| Retained earnings prior year | 0 | 0 | -3 | 0 | 0 | 3 | 0 |
| **Total contributions by and distribution to owners** | 0 | 0 | -3 | 0 | 0 | -2,153 | -2,156 |
| **Balance as per December 31st, 2015** | 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 |

# 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 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 31 March, 2017, 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, 2016. 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 a higher degree of 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 has the ability to affect those returns through its power over the entity. Subsidiaries continue to be consolidated until the moment Brill losses 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 the purpose of 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 on the basis of 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, 2016

On 1 January, 2016 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:

- IFRS 10, IFRS 12 and IAS 28 Investment entities: Applying the consolidation Exception
- IFRS 11, Accounting for Acquisitions of interests in Joint Operations
- IAS 1, Disclosure Initiative
- IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 27, Equity Method in Separate Financial Statements
- Improvements to IFRS (2010-2012 cycle)
- Improvements to IFRS (2012-2014 cycle)

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.

### 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, 2017. Except when noted otherwise the company does not expect the impact of these policies to be material.

- IFRS 2 Classification and measurements of share-based payment transactions
  The impact of IFRS 2 is expected to be immaterial since this type of transaction is not used at Brill.
- IFRS 9 Financial instruments
  The impact of IFRS 9 is expected to be immaterial as the financial assets of Brill consist mostly of cash and trade receivables which are unlikely to change in valuation under IFRS 9
- IFRS 15 Revenue from contracts with customers
  The impact of IFRS 15 is expected to be immaterial on the profit and loss. Based on the first assessment performed by Brill shows that for 92% of the revenue contracts there is no impact. For 8% of the revenue contracts Brill will clarify the performance indicators in the current revenue contracts so that these revenue contracts will not be impacted by the change in IFRS 15.
- IFRS 16 Leases
  The impact of IFRS 16 is that some lease contract 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.

- IAS 7 Disclosure initiatives
- IAS 12 Recognition of deferred tax assets for unrealized losses
  The impact of IAS 12 is expected to be immaterial since Brill does not have material realized or unrealized losses.

### 2.6 Accounting estimates, judgments and assumptions

Publishing rights and goodwill 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. For further explanation, refer to Note 5 to the consolidated financial statements. Prior to capitalization of content and information systems, Brill prepares an estimate of the expected useful benefits. The largest asset class contains investments in content which are grouped with Inventories. Usage of content related current assets which are classified as part of Inventory is charged to the income statement. As a consequence of the changing mix of product formats, certain types of content have a different useful life than production expenditure related to specific product formats, such as print books. These differences may vary by product / market combination.

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

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

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. Due to the experienced long lasting contribution to the results of the company these assets are considered to have an indefinite lifetime.

Acquired goodwill and publishing rights are allocated to Brill's four key 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 four 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.

Content cost of primary source publications and information systems are recognized as intangible fixed assets. These assets are valued at historic cost price or production cost. The amortization of primary source Content cost is calculated on the basis of the expected useful life of primary source products. 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 intangible assets that have an indefinite useful life are not subject to amortization and 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 takes into account 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 Work in progress are stated at the lower of cost and net realizable value. 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 Inventory of raw materials is valued at the lower of cost and net realizable value.

The production unit cost price of a book title consists of Content cost and Product format related cost. At completion of a new title, Content cost (typesetting, illustrations, editing) is capitalized. The capitalized Content costs are grouped with Inventories on the Balance sheet. Following capitalization, the cost is charged to the Cost of Goods Sold based on the sales volume of the product.

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 subsequent measurement 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

As per 2015, the pension arrangement for the Dutch employees is collectively arranged for in the Pensioenfonds voor Grafische Bedrijven (PGB). Previously the plan was arranged through Interpolis. 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. 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 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 of time, 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, split into Content and Finished product. Content cost is charged to Cost of Goods Sold according to product sales volume. 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.

### 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

A subsidy is fully allocated to the publishing project for which the subsidy was granted, and included in (offset against) the Work In Progress amount capitalized for the project. 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 are 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

In 2016 Brill acquired the publication rights of *The Year's Work in Modern Language Studies* (journal), *The Journal of African Archaeology and the African Archaeology Monograph Series* (book series). All publications are expected to add to the profit as from 2016. Also, in 2016, Brill divested the publication rights for *International Yearbook and Statesman's who is who* for a net cash consideration of nil Euro. The divestment led to a onetime, non-cash loss before tax of EUR 217 thousand in 2016. In 2015, this publication generated EUR 105 thousand in revenue. Brill has entered into a five-year service agreement with the acquirer for the performance of fulfilment services.

The acquisition of Schöningh & Fink, announced on 20 December 2016, is effective as per 1 January, 2017 and has therefore not been processed in the 2016 accounts. Brill acquires tangible fixed assets, current assets, current liabilities, publication rights and employees.

The total purchase price is EUR 1.1 million of which EUR 0.2 million is subject to a working capital adjustment and depending on the companies' 2016 results. Following the announcement, Brill paid EUR 0.9 million as a prepayment (recognized in other receivables in note 8). Settlement of the remainder will be completed in Q2
of 2017. Brill expects the business to contribute EUR 3 million to 2017 revenue and be additive to net profit. Due to differences in year closing schedule no balance sheet information as per 31 December, 2016 is available for Schöningh & Fink at the time of authorization of these financial statements.

In 2016 all acquisitions of publishing rights, were structured as purchases of assets. The acquisition of these publishing rights further Brill's objective to expand its market position within selected niches. The fair value of the acquired publishing rights is as follows:

| | **2016** | 2015 |
|---|---|---|
| | Fair value at date of acquisition | |
| **Assets** | | |
| Intangible fixed assets (publishing rights) | 69 | 92 |
| Total net assets at fair value | 69 | 92 |

The value of the identifiable divested assets and liabilities is as follows:

| | 2016 | 2015 |
|---|---|---|
| | Value date at date of divestment | |
| **Assets** | | |
| Intangible fixed assets (publishing rights) | 61 | 0 |
| Inventories | 165 | 0 |
| **Liabilities** | | |
| Deferred tax | 0 | 0 |
| Trade creditors and other receivables | 9 | 0 |
| **Total net assets** | 217 | 0 |

In 2015 Brill acquired the publication rights of *The Dostoevsky Journal, Transcultural Studies* (journal) and *Islamic Africa* (journal) and some other minor publication rights.

Cash payments related to the acquisitions of publishing rights were as follows:

| **Cash payments related to acquisitions** | **2016** | 2015 |
|---|---|---|
| Amounts paid or to be paid | -69 | -92 |
| Cash and cash equivalents included in target | 0 | 0 |
| Deferred portion of acquisition payments | 0 | 50 |
| Net cash payments related to acquisitions | -69 | -42 |
| Payments related to acquisitions prior year | -26 | 0 |
| Net cash payments related to acquisitions in period | -95 | -42 |

## 4. Tangible fixed assets

| 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 | 673 | 7,073 | 7,746 |
| Disposal of assets | 0 | -4,230 | -4,230 |
| Cost | 673 | 2,843 | 3,516 |
| Accumulated depreciation before disposal | -612 | -6,698 | -7,310 |
| Accumulated depreciation of disposal | 0 | 4,230 | 4,230 |
| Accumulated depreciation | -612 | -2,468 | 3,080 |
| **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 |

| 2015 | Leasehold improvements | Other | Total |
|---|---|---|---|
| **Book value as per January 1st, 2015** | 43 | 1,290 | 1,333 |
| Reclassification to intangible assets | 0 | -866 | -866 |
| Investment | 28 | 162 | 190 |
| Depreciation | -10 | -220 | -230 |
| Exchange rate differences | 0 | 9 | 9 |
| **Book value as per December 31st, 2015** | 61 | 375 | 436 |
| | | | |
| January 1st, 2015 | | | |
| Cost | 645 | 8,210 | 8,855 |
| Accumulated depreciation | -602 | -6,920 | -7,522 |
| **Net book amount** | 43 | 1,290 | 1,333 |
| | | | |
| December 31st, 2015 | | | |
| Cost | 673 | 7,073 | 7,746 |
| Accumulated depreciation | -612 | -6,698 | -7,310 |
| Net book amount | 61 | 375 | 436 |

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 other equipment) between 3 and 10 years. The depreciation is part of the general and administrative expenses in the consolidated income statement. Information about the reclassification of tangible assets to intangible assets can be found in note 5. Further information can be found in note 16. The disposal of historic assets only includes fully depreciated assets that are no longer present at Brill.

## 5. Intangible fixed assets

*) CIS = Content & Information Systems

| 2016 | Publishing rights | Goodwill | CIS*) | Total |
|---|---|---|---|---|
| **Book value as per January 1st, 2016** | 15,181 | 1,879 | 1,664 | 18,724 |
| Acquisition | 69 | 0 | 0 | 69 |
| Investment | 0 | 0 | 976 | 976 |
| Divestment | -61 | 0 | 0 | -61 |
| Amortization | 0 | 0 | -656 | -656 |
| **Book value as per December 31st, 2016** | 15,189 | 1,879 | 1,984 | 19,052 |
| | | | | |
| January 1st, 2016 | | | | |
| Cost | 15,181 | 1,879 | 8,760 | 25,820 |
| Accumulated amortization | 0 | 0 | -7,096 | -7,096 |
| **Net book amount** | 15,181 | 1,879 | 1,664 | 18,724 |
| | | | | |
| **December 31st, 2016** | | | | |
| Cost | 15,189 | 1,879 | 9,736 | 26,804 |
| Accumulated amortization | 0 | 0 | -7,752 | -7,752 |
| **Net book amount** | 15,189 | 1,879 | 1,984 | 19,052 |

| 2015 | Publishing rights | Goodwill | CIS*) | Total |
|---|---|---|---|---|
| **Book value as per January 1st, 2015** | 15,089 | 1,879 | 771 | 17,739 |
| Reclassification from tangible assets *) | 0 | 0 | 866 | 866 |
| Acquisition | 92 | 0 | 0 | 92 |
| Investment | 0 | 0 | 730 | 730 |
| Divestment | 0 | 0 | 0 | 0 |
| Amortization | 0 | 0 | -703 | -703 |
| **Book value as per December 31st, 2015** | 15,181 | 1,879 | 1,664 | 18,724 |
| | | | | |
| January 1st, 2015 | | | | |
| Cost | 15,089 | 1,879 | 6,722 | 23,690 |
| Accumulated amortization | 0 | 0 | -5,951 | -5,951 |
| **Net book amount** | 15,089 | 1,879 | 771 | 17,739 |
| | | | | |
| **December 31st, 2015** | | | | |
| Cost | 15,181 | 1,879 | 8,760 | 25,820 |
| Accumulated amortization | 0 | 0 | -7,096 | -7,096 |
| **Net book amount** | 15,181 | 1,879 | 1,664 | 18,724 |

*) In 2016, management concluded that investments in platforms and online technology, classified under tangible fixed assets, should be reclassified to intangible assets. In 2015 a total asset cost of EUR 1,308 thousand with an accumulated amortization of EUR 442 thousand (book value EUR 866 thousand) was reclassified. The reclassification has no impact on consolidated net profit.

Publishing rights and goodwill are related to historic business combinations and acquisitions of publishing rights. As per ultimo 2016, net book value was EUR 17.1 million (2015: EUR 17.0 million). These assets have an indefinite useful lifetime. At the end of each reporting period Brill reviews any indication whether the CGU's (segments) that contain goodwill and publishing rights may be impaired. Next to that 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 plan in force at the time of making the analysis. Furthermore, the three-year projections in these 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 11.5% (2015: 11.4%) 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** | **2016** | 2015 |
|---|---|---|
| Risk free interest rate (in %) | 0.85 | 1.47 |
| Market debt premium (in %) | 1.05 | 0.82 |
| Market risk premium (in %) | 6.50 | 6.00 |
| Illiquidity premium CGU's (in %) | 3.00 | 3.00 |
| Leveraged Beta | 0.94 | 0.98 |

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 2016 showed that the recoverable amount for all segments for publishing rights 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.

**Publishing rights and goodwill impairment sensitivity per CGU 2016**

| | Applied (terminal) growth rate of cash flows (*g*) | Decline in *g* which would trigger an impairment | Increase in discount rate which would trigger an impairment |
|---|---|---|---|
| HIS | 1.0% | >5% | >2% |
| LAW | 0.8% | >5% | >4% |
| MIA | 1.3% | n.a. | >5% |
| ARC | 0.8% | n.a. | >5% |

Not applicable means that the entire book value of the CGU is covered by the net present value of the cash flows within the scope of the planning period of 10 years.

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

| **Segment** | Publishing rights | | Goodwill | | Total | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| LAW | 10,391 | 10,452 | 787 | 787 | 11,178 | 11,239 |
| MIA | 3,002 | 2,933 | 342 | 342 | 3,344 | 3,275 |
| HIS | 955 | 955 | 345 | 345 | 1,300 | 1,300 |
| ARC | 841 | 841 | 405 | 405 | 1,246 | 1,246 |
| **Total** | 15,189 | 15,181 | 1,879 | 1,879 | 17,068 | 17,060 |

In addition to intangible assets with indefinite useful life, Brill recognizes intangibles with defined useful life, namely Content and Information systems. Depending on their economic use, these are amortized linearly in three or five years.

In 2016, Amortization expenses for Content and Information systems were EUR 656 thousand (2015: EUR 703 thousand). These expenses were recognized in the income statement under Cost of goods sold EUR 138 thousand (2015: EUR 155 thousand, refer note 16) and under General and administrative expenses EUR 518 thousand (2015: EUR 548 thousand). At year end 2016 Brill had outstanding commitment for the purchase and construction of intangible assets of EUR 257 thousand (2015: 0 thousand).

## 6. Income tax expense

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

| | **2016** | 2015 |
|---|---|---|
| Income tax on continued operations | | |
| - Current tax | 948 | 1,398 |
| - Adjustments for current tax of prior periods | 0 | -7 |
| Deferred tax | 68 | -555 |
| **Tax recognized in the consolidated income statement** | 1,016 | 836 |

The table below reconciles the effective tax rate and the calculation of tax according to local nominal Dutch tax rates as per December 31st, 2016 and 2015.

| | 2016 | 2015 |
|---|---|---|
| Income before tax | 3,813 | 3,168 |
| Statutory Dutch income tax rate | 20% - 25.0% | 20% - 25.0% |
| Tax, at the nominal rate | 941 | 781 |
| - Effect of different tax rates outside the Netherlands | 63 | 57 |
| - Miscellaneous | 12 | -2 |
| **Tax recognized in the consolidated income statement** | 1,016 | 836 |
| **Effective tax rate** | 26.7% | 26.4% |

**Deferred taxation is itemized as follows:**

| 2016 | Intangible assets | Plant and equipment | Trade and other accrued expenses | Reserve for reinvest-ment | Total |
|---|---|---|---|---|---|
| **Net carrying amount as of 1 January, 2016** | -3,770 | 106 | 38 | 0 | -3,626 |
| Recognized in profit and loss | -55 | -15 | 2 | 0 | -68 |
| Effect of movement in foreign exchange rates | 0 | -1 | 2 | 0 | 1 |
| **Net carrying amount as of 31 December, 2016** | -3,825 | 90 | 42 | 0 | -3,693 |
| **2015** | | | | | |
| **Net carrying amount as of 1 January, 2015** | -3,683 | 105 | 21 | -622 | -4,179 |
| Recognized in profit and loss | -87 | 3 | 17 | 622 | 555 |
| Effect of movement in foreign exchange rates | 0 | -2 | 0 | 0 | -2 |
| **Net carrying amount as of 31 December, 2015** | -3,770 | 106 | 38 | 0 | -3,626 |

The reserve for reinvestment expired and thus became current as per the end of 2015. The deferred tax amount is for EUR 3,746 thousand non-current and for minus EUR 53 thousand current (recoverable within 12 months). Taxes due on hedge contracts with negative value are included in the tax accrual.

## 7. Inventories

| Inventories | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Work in progress | 2,276 | 2,464 |
| Finished goods | 2,714 | 3,246 |
| Content | 8,189 | 7,592 |
| | 13,179 | 13,302 |

The inventory of finished goods includes a provision for obsolescence of EUR 2,268 thousand (2015 EUR 2,609 thousand). This provision was increased by EUR 406 thousand in 2016 (2015 by EUR 483 thousand). This amount was charged as an expense in the income statement. The provision decreased with EUR 747 thousand because fully provided for finished goods were destroyed. There was no need for writing down inventory to net realizable value.

| Work in progress development details | 2016 | 2015 |
|---|---|---|
| **January 1st** | 2,464 | 3,190 |
| Additions (purchasing) | 6,115 | 5,740 |
| Transferred to finished goods | -682 | -807 |
| Transferred to content | -3,745 | -4,120 |
| Transferred to intangible assets primary sources | -35 | -184 |
| Expensed in cost of goods sold | -1,841 | -1,354 |
| **December 31st** | 2,276 | 2,464 |

| Finished goods development details | 2016 | 2015 |
|---|---|---|
| **January 1st** | 3,246 | 3,681 |
| Addition from work in progress | 682 | 807 |
| Increase of provision for obsolescence (expensed) | -406 | -483 |
| Expensed in cost of goods sold | -809 | -759 |
| **December 31st** | 2,714 | 3,246 |

| Content development details | 2016 | 2015 |
|---|---|---|
| **January 1st** | 7,592 | 6,329 |
| Addition from work in progress | 3,745 | 4,120 |
| Expensed in cost of goods sold | -3,148 | -2,857 |
| **December 31st** | 8,189 | 7,592 |

Content cost typically consists of costs for typesetting, illustrations, editing, translations and all other cost that relate to preparing content for publication.

## 8. Trade and other receivables

| Trade and other receivables | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Trade receivables | 6,179 | 6,512 |
| Less: provision for bad debts | -201 | -255 |
| Net trade receivables | 5,978 | 6,257 |
| Prepayment for acquisition | 890 | 0 |
| Other receivables | 1,134 | 1,714 |
| | 8,002 | 7,971 |

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 | 2016 | 2015 |
|---|---|---|
| **January 1st** | 255 | 197 |
| Provision for bad debt recognized during the year | 40 | 75 |
| Receivables written off during the year as uncollectible | -31 | -13 |
| Unused amount reversed | -63 | -4 |
| **December 31st** | 201 | 255 |

Other receivables contains an item relating to prepaid royalties (EUR 326 thousand in 2016 versus EUR 749 thousand in 2015). In 2016 following review of commercial prospects, Brill decided to write off EUR 384 thousand in prepaid royalties relating to two specific publications. This write-off is included in the cost of goods sold.

| **Aging of receivables** | **31-12-2016** | 31-12-2015 |
|---|---|---|
| Not due | 4,805 | 5,152 |
| Payment due: | | |
| < 30 days | 756 | 689 |
| 30-60 days | 131 | 307 |
| 60-90 days | 29 | 53 |
| > 90 days | 257 | 56 |
| | 5,978 | 6,257 |

## 9. Cash and cash equivalents

Cash and cash equivalents as per ultimo 2016 were EUR 6,302 thousand (ultimo 2015: EUR 6,299 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 2016 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 2016 (2015: 1,874,444). The number of authorized shares was 2,500,000 in 2016 (2015: 2,500,000). In 2016, shareholder capital was EUR 1,125 thousand (2015: EUR 1,125 thousand). 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, 2015** | -103 | -256 | -359 |
| Result revaluation | -20 | -870 | -890 |
| Reclassification to profit & loss | 0 | 1,105 | 1,105 |
| Recognized in other comprehensive income | -20 | 235 | 215 |
| Tax on revaluation result | 0 | -59 | -59 |
| Total mutation | -20 | 176 | 156 |
| **December 31st, 2015** | -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 | -105 |
| **December 31st, 2016** | -147 | -161 | -308 |

## 11. Interest bearing loans

At balance date, Brill had no bank loans or other interest bearing liabilities. On December 31st, 2016 unused credit facilities of EUR 12.5 million were available (2015: 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 for a book value of EUR 13.1 million (2015 EUR 13.3 million) and accounts receivable for a book value of EUR 5.9 million (2015 EUR 6.3 million). In addition, the covenants include two financial ratios:

| **Net debt/EBITDA ratio** | **2016** | 2015 |
|---|---|---|
| Cash and cash equivalents | -6,304 | -6,299 |
| Interest bearing loans | 0 | 0 |
| Net debts | -6,304 | -6,299 |
| EBITDA (see note 23) | 4,496 | 3,793 |
| Net debt/EBITDA ratio (must be less than 2.5) | -1.40 | -1.66 |

| **Debt service ratio** | **2016** | 2015 |
|---|---|---|
| EBITDA (see note 23) | 4,496 | 3,793 |
| Income tax paid | -1,575 | -718 |
| Investment in tangible fixed assets | -903 | -268 |
| Investment in intangible fixed assets | -212 | -268 |
| Change in working capital | 1,293 | 1,182 |
| | 3,122 | 3,336 |
| Interest paid | 34 | 60 |
| Debt service ratio (must be higher than 1.1) | 90.5 | 55.6 |

In 2016, as in 2015, Brill performed well within the boundaries of these covenants.

## 12a. Trade creditors and other payables

| **Trade creditors and other payables** | **31-12-2016** | 31-12-2015 |
|---|---|---|
| Trade creditors | 3,153 | 3,566 |
| Other taxes and social securities | 448 | 186 |
| Accruals | 1,808 | 1,767 |
| Other payables | 1,380 | 1,293 |
| | 6,789 | 6,812 |

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

| **Provisions** | **31-12-2016** | 31-12-2015 |
|---|---|---|
| Contract termination costs | 0 | 104 |

This provision was recorded in the financial statements of 2015 (in the restated comparative figures of 2014) and related to the termination of the rental contract (including all related expenses) for the offices of Rodopi BV. Final payments related to this contract were made in 2016 and the provision was fully used.

## 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 | |
|---|---|---|---|---|
| | **31-12-2016** | 31-12-2015 | **31-12-2016** | 31-12-2015 |
| **Financial assets** | | | | |
| Cash and cash equivalents | 6,304 | 6,299 | 6,304 | 6,299 |
| Trade and other receivables | 8,002 | 7,971 | 8,002 | 7,971 |
| Currency forward agreements | 117 | 0 | 117 | 0 |
| **Financial liabilities** | | | | |
| Trade and other payables | -6,789 | -6,812 | -6,789 | -6,812 |
| Currency forward agreements | -422 | -184 | -422 | -184 |

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, 2016 and 31 December, 2015. The column 'net amount' shows the impact on the group's balance sheet if all set-off rights were exercised.

| 2016 | Gross amount | Offset in the balance sheet | Net presented in the balance sheet | Amount subject to master netting arrangements | Net amount |
|---|---|---|---|---|---|
| | Effects of offsetting on balance sheet | | | Related amounts not offset | |
| **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 |
| **2015** | | | | | |
| **Financial liabilities** | | | | | |
| Derivative financial instruments | 184 | 0 | 184 | 0 | 184 |
| **Total** | 184 | 0 | 184 | 0 | 184 |

**Hedge accounting**

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

| | Total amount contracts (in USD) | | Fair value contracts (in EUR) | |
|---|---|---|---|---|
| **Net forward position** | **31-12-2016** | 31-12-2015 | **31-12-2016** | 31-12-2015 |
| Sell forwards | 9,700 | 8,450 | -422 | -184 |
| Purchase forwards | -2,390 | 0 | 117 | 0 |
| **Total** | 7,310 | 8,450 | -305 | -184 |

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 affect 2017 entirely. In 2016 an amount of EUR 1 thousand was recognized in the income statement for non-effectiveness (2015 EUR 0 thousand). In 2016, EUR 26 thousand (2015 EUR 357 thousand) worth of changes in fair value from the cash flow hedge was booked in equity. 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, 2016, Brill held the below financial instruments, valued at fair value, grouped 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 | |
|---|---|---|
| | **31-12-2016** | 31-12-2015 |
| Level 1 | 0 | 0 |
| Level 2 | -305 | -184 |
| Level 3 | 0 | 0 |
| **Total** | -305 | -184 |

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 2016, around 41% (2015: 38%) 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 taken into account. Since the majority of 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 into liabilities in US dollar to compensate receivables in US dollar. Furthermore, as of mid-2016, Brill hedges certain ongoing outgoing cash flow in US dollars in order to limit the impact of currency swings on the cost level.
The net result is a limited currency risk. In 2016, Brill recognized a foreign exchange result of EUR 132 thousand (2015: 219 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 US dollar value versus the euro** | **2016** | 2015 |
|---|---|---|
| Net revenue | 135 | 231 |
| Gross profit | 117 | 161 |
| Net profit | 165 | 78 |
| Equity | -235 | -274 |

| **Impact of a 5% decrease of the US dollar value versus the euro** | **2016** | 2015 |
|---|---|---|
| Net revenue | -122 | -209 |
| Gross profit | -106 | -146 |
| Net profit | -149 | -71 |
| Equity | 357 | 334 |

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 2016, 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 cause an increase in 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.

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 2016 the average number of Days Sales Outstanding for sales was 56 days (2015: 58 days).

**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 years | > 5 years | Total |
| **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 |
| **As per December 31st, 2015** | | | | | | | |
| Trade and other payables | 6,812 | 3,879 | 1,147 | 1,786 | 0 | 0 | 6,812 |
| Currency forward receipts | | 0 | -2,430 | -4,892 | | | -7,322 |
| Currency forward payments | | 0 | 2,520 | 4,986 | 0 | 0 | 7,506 |
| | | 3,879 | 1,237 | 1,880 | 0 | 0 | 6,996 |

### 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 four business segments, identified as Publishing Units. The aggregation of these segments has been made based on 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
- ARC – Philosophy (including philosophy and ethics), Art, Religion and Bible studies, Theology, Jewish studies, Ancient Near East, Egyptology, Classical antiquity, Geek and Latin literature

Brill management primarily uses EBITDA to assess the profitability performance of the business segments, and a measure of Net assets (Invested capital, which includes fixed tangible and intangible assets, net of deferred tax liabilities relating to acquired intangibles plus working capital net of cash) to assess the capital requirement of each segment.

| Publishing Unit | LAW | MIA | HIS | ARC | Total |
|---|---|---|---|---|---|
| Revenue 2016 | 6,516 | 9,292 | 6,733 | 9,636 | 32,177 |
| Revenue 2015 | 6,373 | 9,200 | 6,838 | 8,398 | 30,809 |
| | | | | | |
| EBITDA 2016 (SEE NOTE 23) | 1,417 | 419 | 728 | 1,932 | 4,496 |
| EBITDA 2015 (SEE NOTE 23) | 980 | 630 | 730 | 1,454 | 3,794 |
| | | | | | |
| Invested capital 31-12-2016 | 9,756 | 5,663 | 3,149 | 2,511 | 21,079 |
| Invested capital 31-12-2015 | 9,873 | 5,605 | 2,910 | 2,479 | 20,867 |

| Reconciliation assets | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Invested capital | 21,079 | 20,867 |
| **Adjustments** | | |
| Current Liabilities | 15,764 | 15,940 |
| Deferred Tax Liabilities | 3,693 | 3,626 |
| Income tax to be received | 34 | 0 |
| Derivative financial instruments | 117 | 0 |
| Cash and cash equivalents | 6,304 | 6,299 |
| **Assets** | 46,991 | 46,732 |

Product revenue segmentation is as follows:

| Revenue by product type | 2016 | | 2015 | |
|---|---|---|---|---|
| Books | 8,730 | | 7,180 | |
| Journals | 7,493 | | 6,942 | |
| Other | 1.084 | | 918 | |
| Digital revenue | | 17,307 | | 15,040 |
| | | | | |
| Books | 12,945 | | 13,408 | |
| Journals | 1,836 | | 1,899 | |
| Other | 89 | | 462 | |
| Offline revenue | | 14,870 | | 15,769 |
| | | | | |
| **Total** | | 32,177 | | 30,809 |

Other includes revenue generated from Primary sources.

Customer sales above 10% of total was:

| Publishing Unit | LAW | MIA | HIS | ARC | Total |
|---|---|---|---|---|---|
| Ebsco International Inc. | 576 | 651 | 1,000 | 1,262 | 3,489 |

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 | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Asia & Oceania | 4,071 | 3,907 |
| Eastern Europe | 473 | 693 |
| Middle East & Africa | 1,323 | 1,097 |
| North America | 13,369 | 12,394 |
| Western Europe | 12,837 | 12,628 |
| Rest of World | 104 | 90 |
| | 32,177 | 30,809 |

The ownership of all intangible assets and the majority of tangible assets lies in the Netherlands.

## 16. Expenses

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

| **Cost of goods sold** | **2016** | 2015 |
|---|---|---|
| Technical production costs, content and shipping cost | 9,703 | 9,558 |
| Amortization content in intangibles assets (primary sources) | 138 | 155 |
| Royalties | 1,317 | 684 |
| | 11,158 | 10,397 |

In 2016, EUR 164 thousand was expensed in Technical production costs, content and shipping costs in relation to the divestment of the International Yearbook.

| **Reconciliation Selling and administrative costs with personnel costs and operating expenses** | **2016** | 2015 |
|---|---|---|
| Selling and distribution expenses | 5,735 | 6,349 |
| General and administrative expenses | 11,572 | 11,048 |
| | 17,307 | 17,397 |
| Personnel cost | 9,323 | 9,016 |
| Operational expenses | 7,200 | 7,603 |
| Amortization of intangible assets [5] | 518 | 548 |
| Result on divestment of intangible assets [5] | 61 | 0 |
| Depreciation of tangible assets [4] | 205 | 230 |
| | 17,307 | 17,397 |

As of August 2016, Brill implemented hedge accounting for expenses. Personnel cost contains an amount of minus EUR 3 thousand (2015 EUR 0 thousand) and Operational expenses contains an amount of minus EUR 2 thousand (2015 EUR 0 thousand) as correction for hedging.

Breakdown of personnel costs is as follows:

| **Personnel costs** | **2016** | 2015 |
|---|---|---|
| Salaries | 8,295 | 8,031 |
| Social security payments | 1,159 | 1,089 |
| Defined contribution pension arrangement | 705 | 830 |
| Other defined contribution arrangements | 367 | 353 |
| | 10,526 | 10,303 |
| Booked to Work in progress | -1,203 | -1,287 |
| | 9,323 | 9,016 |

Operating expenses of EUR 7,200 thousand (2015 EUR 7,603 thousand) include all costs except those related to the Cost of goods sold and Personnel costs. Personnel costs booked to work in progress relate only to the internal desk editing team. This team constitutes about 20% of Brill's overall workforce. Desk editing writes time to products, which is then capitalized or expensed as the case may be. In addition to internal staff, Brill uses vendor services for the majority of editing and typesetting activities for its publications.

## 17. Finance cost and income

The interest rate received on our current account balance was 0% in 2016 (2015: 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** | **2016** | 2015 |
|---|---|---|
| Interest received | 16 | 2 |
| Foreign exchange rate differences | 132 | 219 |
| | 147 | 221 |

| **Finance expense** | **2016** | 2015 |
|---|---|---|
| Interest paid | -45 | -68 |
| Foreign exchange rate differences | -1 | 0 |
| | -46 | -68 |

## 18. Earnings per share (EPS)

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 or redeemable preferred shares were outstanding that might lead to future dilution of earnings per share. After balance date, no share transactions took place.

| **Earnings per share** | **2016** | 2015 |
|---|---|---|
| Net income | 2,797 | 2,332 |
| Weighted average number of shares issued | 1,874,444 | 1,874,444 |
| Earnings per share attributable to shareholders of Koninklijke Brill NV (in EUR) | 1.49 | 1.24 |

## 19. Dividend paid and proposed

| **Dividend** | **2016** | 2015 |
|---|---|---|
| **Dividend paid** | | |
| Dividend paid for 2014: EUR 1.15 | | 2,156 |
| Dividend paid for 2015: EUR 1.24 | 2,324 | |
| **Proposed dividend for 2016** | | |
| (not included as a liability per December 31st 2016) | | |
| Dividend to be paid for 2016: EUR 1.32 | 2,474 | |
| **Profit distribution proposal 2016** | | |
| Dividend on ordinary shares | 2,474 | |
| Added to retained earnings | 323 | |
| **Net income** | 2,797 | |

## 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. In addition, Brill USA has a rental agreement for its office located on Liberty Square, Boston, MA with duration until February 2023. Brill Asia has a rent agreement for its offices located on Rochester Drive, Singapore with a duration until May 2017. 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, 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 |

| As per December 31st, 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | >2020 |
|---|---|---|---|---|---|---|
| Company cars | 57 | 45 | 41 | 19 | 0 | 0 |
| Rent | 541 | 551 | 561 | 571 | 582 | 1,516 |
| | 598 | 596 | 602 | 590 | 582 | 1,516 |

In addition to the above, Brill has a commitment for full settlement of the purchase price of Schöningh & Fink in 2017. For details refer to Note 3.

## 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) and Brill Deutschland GmbH (in Paderborn, Germany). In 2016, as in 2015, 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 business development services to Koninklijke Brill NV 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 as of January 1, 2017.

**Remuneration of key executives**

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 of the Supervisory Board | 2016 | 2015 |
|---|---|---|
| Mr. R.E. Rogaar | 0 | 10,417 |
| Mr. S. Perrick | 15,000 | 0 |
| Mr. R. Hoytema van Konijnenburg | 25,812 | 15,860 |
| Mrs. C. Lucet | 25,108 | 25,000 |
| Mr. A.R. baron van Heemstra | 20,483 | 30,000 |
| | 86,403 | 81,277 |

| Remuneration of the Managing Director (pay-out) | 2016 | 2015 |
|---|---|---|
| *Fixed* | | |
| Salary | 255,000 | 250,000 |
| Pension premium paid by Brill | 73,837 | 75,437 |
| *Variable* | | |
| Anniversary payment | 10,625 | |
| Incentive plan (concerning performance of previous year) | 55,000 | 39,200 |
| | 394,462 | 364,637 |
| Total remuneration of Supervisory Board and Managing Director | 470,240 | 445,914 |

In relation to the 2016 target achievement, an amount of EUR 97 thousand was recognized in the accounts of 2016 of which EUR 33 thousand is for the long-term target for pay out in 2019 and EUR 64 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 2016 were based on increase of revenue, increase of EBITDA and two non-financial targets. The increase of revenue was met at 100% and accordingly the Managing Director was awarded a pay-out of 10% on this target. One of the two non-financial targets was fully met resulting in a pay-out to the Managing Director of 4%. The second non-financial target was partly met which resulted in a pay-out to the Managing Director of 11%.

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 2014-2016 target (payout 2017) of 8% average growth of revenue compared to 2013 was not met in 2016 and the 2015-2017 target (payout 2018) of 20% autonomous growth over three years was not met in 2016 either, the 2016-2018 target (payout 2019) of 2,6% average organic growth of revenue was met in 2016. This has led to an accrual of one third of the 40% payout of the 2016-2018 target.

**Other related party transactions**

There are no other related party transactions.

## 22. Events after balance sheet date

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

In addition, it should be noted that as of January 1, 2017 the business of Schöningh & Fink is consolidated into Brill's group results.

## 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**

Koninklijke Brill uses the term EBITDA to evaluate the performance of the total company and the operating segments. EBITDA will make the underlying performance of the businesses more transparent by excluding the depreciation of tangible assets and the amortization and impairments on intangible assets.

| **Reconciliation of Revenue and profit before tax** | **2016** | 2015 |
|---|---|---|
| Revenue | 32,177 | 30,809 |
| Cost of goods sold | -11,158 | -10,397 |
| Sales costs | -5,735 | -6,349 |
| General and administrative expenses | -10,787 | -10,269 |
| EBITDA | 4,496 | 3,794 |
| Depreciation | -581 | -616 |
| Amortization | -204 | -163 |
| **Operating profit** | 3,712 | 3,015 |
| Finance income | 147 | 221 |
| Finance expense | -46 | -68 |
| **Profit before tax** | 3,813 | 3,168 |

### 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 | 2016 | | 2015 | |
|---|---|---|---|---|
| Operating income | 3,712 | | 3,015 | |
| Effective tax | -991 | (26,6%) | -796 | (26,4%) |
| Net operating profit less adjusted tax (NOPLAT) | 2,721 | | 2,219 | |
| Total assets | 46,991 | | 46.732 | |
| Cash | -6.304 | | -6.299 | |
| Deferred tax liabilities | -3,693 | | -3,626 | |
| Current liabilities | -15.764 | | -15.940 | |
| Invested capital | 21,230 | | 20,867 | |
| Average invested capital | 21,049 | | 21,123 | |
| Return on invested capital | 12.9% | | 10.5% | |

### Free cash flow

Free cash flow is a term used frequently by banks and financial investors to evaluate the cash available to the company's investors.

| Free cash flow | 2016 | 2015 |
|---|---|---|
| Net cash flow | 5 | 1,045 |
| Dividend paid to shareholders | 2,324 | 2,156 |
| | 2,329 | 3,201 |

# COMPANY FINANCIAL STATEMENTS 2016

# CONTENTS

## Company Financial Statements

# COMPANY BALANCE SHEET AS PER DECEMBER 31, 2016

In EUR thousand (before appropriation of profit)

| | 31-12-2016 | | 31-12-2015* | |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non – current assets** | | | | |
| Tangible fixed assets [3] | 241 | | 352 | |
| Intangible fixed assets [4] | 19,052 | | 18,724 | |
| Financial fixed assets [5] | 841 | | 558 | |
| | | 20,134 | | 19,634 |
| **Current assets** | | | | |
| Inventories | 13,179 | | 13,302 | |
| Trade and other receivables [6] | 8,065 | | 8,055 | |
| Derivative financial instruments | 117 | | 0 | |
| Cash and cash equivalents [7] | 6,067 | | 6,102 | |
| | | 27,428 | | 27,459 |
| **Total assets** | | 47,562 | | 47,093 |
| **Equity and Liabilities** | | | | |
| **Equity** | | | | |
| Share capital | 1,125 | | 1,125 | |
| Share premium | 343 | | 343 | |
| Retained earnings | 23,577 | | 23,569 | |
| Other reserves | -308 | | -203 | |
| Undistributed profit | 2,797 | | 2,332 | |
| | | 27,535 | | 27,166 |
| **Non–current liabilities** | | | | |
| Deferred tax liability | 3,710 | | 3,634 | |
| | | 3,710 | | 3,634 |
| **Current liabilities** | | | | |
| Trade and other payables [8] | 7,343 | | 7,233 | |
| Deferred income | 8,439 | | 8,189 | |
| Provision | 0 | | 104 | |
| Tax to be paid | 114 | | 583 | |
| Derivative financial instruments | 422 | | 184 | |
| | | 16,318 | | 16,293 |
| **Total Liabilities** | | 47,562 | | 47,093 |

* Restated, refer note 4

# COMPANY INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

In thousands of euro's

| | 31-12-2016 | 31-12-2015 |
|---|---|---|
| **Gross profit** | | |
| Revenue | 26,874 | 25,070 |
| Cost of goods sold | -7,914 | -6,877 |
| | 18,960 | 18,193 |
| **Expenses** | | |
| Selling and distribution expenses | -4,146 | -4,576 |
| General and administrative expenses | -11,540 | -11,092 |
| **Operating profit** | 3,274 | 2,525 |
| Finance income | 148 | 221 |
| Finance expenses | -46 | -68 |
| **Profit before income tax** | 3,376 | 2,687 |
| Income tax expense | -862 | -661 |
| Results from subsidiaries, net of tax | 283 | 305 |
| **Profit from continued operations, attributable to shareholders of Koninklijke Brill nv** | 2,797 | 2,332 |

## 1. Information regarding the Company

The company financial statements have been approved for publication by the Supervisory Board and the Managing Director on 31 March, 2017. 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 on the basis of Title 9, book 2 of the Dutch Civil Code, 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 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 has the ability to 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.

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 remeasurement 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

| **2016** | Leasehold improvements | Other | Total |
|---|---|---|---|
| **Book value as per January 1st, 2016** | 61 | 291 | 352 |
| Investment | 0 | 69 | 69 |
| Depreciation | -11 | -169 | -180 |
| **Book value as per December 31st, 2016** | 50 | 191 | 241 |
| January 1st, 2016 | | | |
| Cost before disposal | 673 | 6,813 | 7,486 |
| Disposal of assets | 0 | -4,230 | -4,230 |
| Cost | 673 | 2,583 | 3,256 |
| Accumulated depreciation before disposal | -612 | -6,522 | -7,134 |
| Accumulated depreciation of disposal | 0 | 4,230 | 4,230 |
| Accumulated depreciation | -612 | -2,292 | -2,904 |
| **Net book amount** | 61 | 291 | 352 |
| December 31st, 2016 | | | |
| Cost | 673 | 5,259 | 5,932 |
| Accumulated depreciation | -623 | -3,667 | -4,290 |
| **Net book amount** | 50 | 1,592 | 1,642 |

| **2015** | Leasehold improvements | Other | Total |
|---|---|---|---|
| **Book value as per January 1st, 2015** | 43 | 1,188 | 1,231 |
| Reclassification to intangible assets | 0 | -866 | -866 |
| Investment | 28 | 143 | 171 |
| Depreciation | -10 | -193 | -203 |
| Merger | 0 | 19 | 19 |
| **Book value as per December 31st, 2015** | 61 | 291 | 352 |
| January 1st, 2015 | | | |
| Cost | 645 | 7,959 | 8,604 |
| Accumulated depreciation | -602 | -6,771 | -7,373 |
| **Net book amount** | 43 | 1,188 | 1,231 |
| December 31st, 2015 | | | |
| Cost | 673 | 6,813 | 7,486 |
| Accumulated depreciation | -612 | -6,522 | -7,134 |
| **Net book amount** | 61 | 291 | 352 |

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.

Information about the reclassification of tangible assets to intangible assets can be found in note 4. Further information can be found in note 16. The disposal of assets only includes fully depreciated assets that are no longer present at Brill.

## 4. Intangible fixed assets

*) CIS = Content & Information Systems

| **2016** | Publishing rights | Goodwill | CIS*) | Total |
|---|---|---|---|---|
| **Book value as per January 1st, 2016** | 15,181 | 1,879 | 1,664 | 18,724 |
| Acquisition | 69 | 0 | 0 | 69 |
| Investment | 0 | 0 | 976 | 976 |
| Divestment | -61 | 0 | 0 | -61 |
| Amortization | 0 | 0 | -280 | -280 |
| **Book value as per December 31st, 2016** | 15,189 | 1,879 | 1,984 | 19,052 |
| | | | | |
| January 1st, 2016 | | | | |
| Cost | 15,181 | 1,879 | 8,760 | 25,820 |
| Accumulated amortization | 0 | 0 | -7,096 | -7,096 |
| **Net book amount** | 15,181 | 1,879 | 1,664 | 18,724 |
| | | | | |
| December 31st, 2016 | | | | |
| Cost | 15,189 | 1,879 | 9,736 | 26,804 |
| Accumulated amortization | 0 | 0 | -7,752 | -7,752 |
| **Net book amount** | 15,189 | 1,879 | 1,984 | 19,052 |

| **2015** | Publishing rights | Goodwill | CIS*) | Total |
|---|---|---|---|---|
| **Book value as per January 1st, 2015** | 13,633 | 1,879 | 771 | 16,283 |
| Reclassification from intangible assets**) | 0 | 0 | 866 | 866 |
| Acquisition | 92 | 0 | 0 | 92 |
| Investment | 0 | 0 | 730 | 730 |
| Merger | 1,456 | 0 | 0 | 1,456 |
| Amortization | 0 | 0 | -703 | -703 |
| **Book value as per December 31st, 2015** | 15,181 | 1,879 | 1,664 | 18,724 |
| | | | | |
| January 1st, 2015 | | | | |
| Cost | 13,633 | 1,879 | 6,722 | 22,234 |
| Accumulated amortization | 0 | 0 | -5,951 | -5,951 |
| **Net book amount** | 13,633 | 1,879 | 771 | 16,283 |
| | | | | |
| December 31st, 2015 | | | | |
| Cost | 15,181 | 1,879 | 8,760 | 25,820 |
| Accumulated amortization | 0 | 0 | -7,096 | -7,096 |
| Net book amount | 15,181 | 1,879 | 1,664 | 18,724 |

**) In 2016, Brill management concluded that the investments in platforms and online technology, classified under tangible fixed assets, should be reclassified to intangible assets. In 2015 a total asset cost of EUR 1,308 thousand with an accumulated amortization of EUR 442 thousand (book value EUR 866 thousand) was reclassified. The reclassification has no impact on net profit.

## 5. Financial fixed assets

| | 31-12-2016 | 31-12-2015 | ownership |
|---|---|---|---|
| Brill USA, Inc. Boston, Verenigde Staten | 799 | 558 | 100% |
| Brill Asia Pte Ltd., Singapore | 17 | 0 | 100% |
| Brill Deutschland GmbH, Paderborn | 25 | 0 | 100% |
| | 841 | 558 | |

The financial fixed assets are stated at net asset value. The change in valuation of Brill USA is caused by the profit of 2016 of EUR 263 thousand and the revaluation of the USD of EUR -22 thousand. Both Brill Asia and Brill Deutschland were incorporated in 2016. The initial share capital of Brill Asia is SGD 1. The Brill Asia balance is made up of a profit of EUR 19 thousand and the revaluation of the SGD of EUR -2 thousand. The initial share capital of Brill Deutschland is EUR 25 thousand. Brill Deutschland has no result for 2016.

## 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.

| | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Trade debtors | 5,977 | 6,257 |
| Other receivables | 2,088 | 1,798 |
| | 8,065 | 8,055 |

## 7. Cash and cash equivalents

As per ultimo 2016, cash and cash equivalents were EUR 6,067 thousand (ultimo 2015: EUR 6,102 thousand). The funds are freely available to Brill.

## 8. Trade and other payables

| | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Trade creditors | 3,146 | 3,536 |
| Intercompany liabilities | 587 | 486 |
| Accruals | 1,808 | 1,766 |
| Other short-term liabilities | 1,802 | 1,445 |
| | 7,343 | 7,233 |

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

## 9. 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. 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, 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 |

| As per December 31st, 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | >2020 |
|---|---|---|---|---|---|---|
| Company cars | 57 | 45 | 41 | 19 | 0 | 0 |
| Rent | 326 | 336 | 346 | 357 | 367 | 1,069 |
| | 383 | 381 | 387 | 376 | 367 | 1,069 |

## 10. Audit fees

| | 2016 | 2015 |
|---|---|---|
| Audit of annual financial statements | 117 | 95 |
| | 117 | 95 |

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. Appropriation of profit

Management proposes a cash payout of EUR 1.32 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 2016 profit in the amount of EUR 2,797 thousand will be appropriated as follows:

| *Profit appropriation proposal* | 2016 |
|---|---|
| Dividend on ordinary shares | 2,474 |
| Retained Earnings | 323 |
| Net income | 2,797 |

## 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, 31 March, 2017

**Supervisory Board**
Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

**Managing Director**
Herman A. Pabbruwe

## 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 in order 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, 2016, 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 |
| Todlin NV | 6% | 22 February, 2013 |
| Kempen Capital Management NV *) | 9% | 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 |

*) In the period up to the EGM held at 24 August, 2016, Kempen further decreased its interest to 5%.

**Number of Shares**

The number of shares outstanding with a nominal value of EUR 0.60 was 1,874,444 on December 31, 2016 (on December 31, 2015 1,874,444). Of the total number of shares outstanding as of December 31, 2016, 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)

With the consent of the Supervisory Board, the Managing Director, before his appointment and for his own account and risk, acquired share (certificates) in Brill via his bank. 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 the Supervisory Board of Koninklijke Brill NV

## Report on the financial statements 2016

### *Our opinion*

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Koninklijke Brill N.V. as at 31 December 2016 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;
- the accompanying company financial statements give a true and fair view of the financial position of Koninklijke Brill N.V. as at 31 December 2016 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 2016 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 2016;
- the following statements for 2016: 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 2016;
- the company income statement for the year then ended;
- 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.

*Independence*

We are independent of Koninklijke Brill N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

### *Our audit approach*

*Overview and context*

Koninklijke Brill N.V. is an international publishing company. The group comprises four components whereby the administration and accounting department is centralised in the Netherlands. This formed the basis for our 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 Company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Managing Director made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 2.6 to 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 in the assumptions used in the valuation of the publishing rights, goodwill and capitalised content related costs, we considered this to be a key audit matter.

In concluding sales transactions, the Company made use of agents (third parties). Completeness and accuracy of revenues made by these third parties were dependent on information from them. In our audit approach we paid special attention to the completeness of these third party revenues as reported by these agents. As a result, we considered the completeness of revenue to be a key audit matter.

We gained understanding of the Company and more specifically the internal control environment and the IT systems.

We planned to build our audit approach on the IT General Controls and effective operation of the key controls. Based on the results of our testing of these controls we changed our audit approach, to a more substantive audit approach. The impact on our audit approach was considered to be a key audit matter as well.

For further information refer to the Key Audit Matters' section.

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 team included the appropriate skills and competences which are needed for the audit of an internationally operating publishing company. We therefore included specialists on valuations, IT and hedge accounting in our team.

The outlines of our audit approach were as follows:


*Materiality*

- Overall materiality: €190,650 which represents 5% of profit before tax.

*Audit scope*

- The group consists of four components in respectively the Netherlands, the USA, Singapore and Germany.
- We performed our audit work at the head-office in Leiden where we audited all significant financial statement line items of the group.
- We instructed the component auditor in the USA to perform specified audit procedures on wages and salaries and corporate income tax.
- Instructed by us, the component auditor in the USA attended inventory counts in the USA. We attended the inventory count in the UK.
- Audit coverage was determined from a consolidated point of view and resulted in mainly audit procedures and limited review activities.

*Key audit matters*

- Impact of (IT General) control deficiencies on the audit.
- Completeness of third party revenues.
- Significant assumptions in the valuations of assets.

*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'.

We set certain quantitative thresholds for materiality. 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 on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| *Overall group materiality* | € 190,650 (2015: € 155,000) |
| *How we determined it* | 5% of profit before tax |
| *Rationale for benchmark applied* | We have applied this 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 users consider profit before tax an important metric for the financial performance of the Company. |
| *Component materiality* | To the component auditor of the subsidiary in the USA we, based on our judgement, allocated a materiality of € 152,000. |

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 € 9,500 (2015: € 7,900) 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. constitutes a group with Brill USA Inc., Brill Asia Pte Ltd and Brill Deutschland GmbH. The financial information of this group is included in the consolidated financial statements of Koninklijke Brill N.V.

In our scoping of the group audit we considered the activities carried out under direction of the Company and those activities carried out by external service providers. Scoping was performed based on a consolidated perspective and in line with how the Company manages its activities. The global operations of the Company were governed out of the Netherlands. Where these activities were audited by component auditors, 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. In 2016 new entities were set up in Germany and Singapore in which mostly start-up expenses were recorded and these were audited by the group engagement team.

The revenues and cost of goods sold in the USA, the two significant areas, were recorded centrally in the Netherlands and were therefore audited by the group engagement team. We decided to make use of the auditor in the USA. We requested the component auditor of the component Brill USA Inc. to carry out a review on the complete set of financial information 2016 and carry out specified audit procedures on all material balance sheet and income statement related items with respect to wages and salaries, corporate income tax and to attend the inventory count held at the external service provider in the USA.

We determined the significance of the activities performed by external service providers for the Company's internal control and financial reporting processes. We identified an external service provider in the UK and the USA as of significant influence on the operating activities of the Company regarding the processes around the goods movement and billing. Prior to requesting ISAE 3402 reports we assessed the quality and independency of the auditors responsible for the ISAE 3402 reports. We requested an ISAE 3402 type 2 report on the design and operating effectiveness of the internal processes and related internal controls at the external service provider in the UK and the USA. For the subcontractor (warehouse and printing services) of the external service provider in the USA we requested an ISAE 3402 type 1 report with additional testing on operational effectiveness of the significant controls. Due to the significance of the inventories located at the service provider in the UK we attended the inventory count in the UK.

We received an unqualified review report from the component auditor of Brill USA Inc. on the financial information 2016 and we reviewed the results of the specified audit procedures on wages and salaries, the inventory count and the corporate income tax. We reviewed the outcome of the ISAE 3402 type 2 report and the ISAE 3402 type 1 report with addendum for the specific controls tested, prepared by the component auditors of the external service providers in the UK and the USA. Subsequently, we had meetings and conference calls with the respective auditors.

The group consolidation, financial statement disclosures and complex items were audited by the group engagement team at the head office. These included the accounting of hedge transactions, impairment analyses of intangible fixed assets and the valuation of capitalised content related costs. By performing the above procedures we obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated 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, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

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 do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

In 2016, we identified two new key audit matters relating to the impact of (IT general) control deficiencies on the audit and the completeness of third party revenues. The key audit matters in 2015 for valuation of goodwill and publishing rights and valuation of content in inventories and recognition of cost of sales are included in one key audit matter in 2016: significant assumptions in the valuation of assets. The key audit matters in 2015 for accounting and disclosure of prior year misstatements of onerous lease contracts in the financial statements and accounting of hedge transactions and disclosure of misstatement in the financial statements are not included anymore as these were corrected in 2015 and not applicable for 2016.

| Key audit matter | How our audit addressed the matter |
|---|---|
| *Impact of (IT general) control deficiencies on the audit* | |
| The internal control deficiencies are included in paragraph 'Risk management and internal control in 2016' in the director's report of the annual report. In 2016 we planned to perform a controls based audit and we planned to test both manual as well as IT dependent significant controls. Due to the deficiencies in the IT general controls, such as access controls and segregation of duties, we changed our audit approach to a more substantive audit approach. We communicated these indentified deficiencies to the Supervisory Board. | Our audit procedures included the evaluation and testing of the additional procedures that Management performed to mitigate the risk. We performed additional substantive audit procedures to address the control deficiencies and to obtain sufficient and appropriate evidence such as an increased amount of testing samples in the area of revenues and verification of logging files from the main financial systems. |
| These deficiencies in (IT general) controls increased the risk of material misstatements in the financial reporting. We asked Management to perform additional procedures to mitigate this risk. We consider the internal control environment as a key audit matter since the identified deficiencies significantly impacted the design of our audit. | Based on our substantive audit procedures we identified some adjustments of which one was material, refer to note 8 with regard to the prepaid royalties. Management corrected these adjustments in the financial statements. |
| *Completeness of third party revenues*<br>*The revenues are disclosed in note 15 to the financial statements* | |
| Revenues are divided between revenues earned by the Company itself and revenues earned by third parties for the account of the group. The third party revenues are recorded by the Company based on revenue statements received from the third party. The third party revenues represent € 4,2 million of the total revenues. We noted that initially Management did not address the completeness of third party revenue statements as part of their own procedures. We communicated this to the Supervisory Board. | Our audit procedures included, amongst others, the review of the internally prepared analysis on the completeness of the revenues as presented by the third parties. We assessed the reasonableness of the expectations made by Management compared to developments on the publishing market. The revenues in printed products for one third party in the USA were reconciled with independently prepared printing reports by the subcontractor of the service provider. The reliability of the printing report was covered by the ISAE 3402 type 1 report and specifically tested. |
| Based on our report and ensuing discussions, Management prepared an analysis on the completeness of the third party revenue streams. | Based on the additional procedures performed we obtained sufficient audit to support the completeness of the revenues of third parties for the purpose of our audit. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| Given the size of these revenues made by third parties and the fact that Management did not initially address the completeness of third party revenues, as part of their internal control procedures, we considered the completeness of third party revenues as a key audit matter. | |
| *Significant assumptions in the valuation of assets*<br>*Information of these assets is disclosed in notes 5 and 7.*<br>At 31 December 2016 the following assets are valued based on significant assumptions used by Management: goodwill and publishing rights (€ 17,068,000) with an indefinite useful life. Management is required to annually test the goodwill and publishing rights for impairment. Management manages the Company based on four segments which they considered to be the lowest level where they are able to make reliable estimates of revenues (CGU's). The impairment tests were important for our audit since the cash flows used in the impairment tests were based on significant assumptions made by Management regarding, amongst others, growth and market developments, the publishing agenda for coming years being the basis for the strategic plan 2017-2019 and the discount factor used. | We obtained the impairment tests as prepared by Management. We tested the impairment models on methodology and mathematical accuracy. We challenged the assumptions and estimates used in the forecasted cash flows. We challenged Management on the determination of CGU's and the interdependencies of revenues with respect to publishing programs within the four segments. We assessed the assumptions used in the sensitivity analyses with reference to past growth percentages and reconciling the used growth percentages with the strategic plan 2017-2019 of Management. We concluded that the impairment analysis was performed in accordance with EU-IFRS and that the outcome of the impairment tests were accurately accounted for. |
| Content in inventory (€ 8,189,000) is amortised based on estimated production volumes. The valuation of the content in inventory was important for our audit since the balance is material and the amortization charge was dependent on the judgemental assessment of production volumes in future. | We tested the internal controls including authorization procedures regarding the recognition of capitalized costs. On a sample basis we tested the valuation of the inventories by substantiating these to original invoices from third parties. We verified the quality of estimates by reviewing the forecasted production volumes and production volumes in the past compared to the actual volumes. |

## 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 director's report ('director's report on the year 2016');
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- '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 all 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 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were 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 director's report and the other information pursuant to Part 9 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 by shareholders representing a total period of uninterrupted engagement appointment of 2 years.

## Responsibilities for the financial statements and the audit

*Responsibilities of the 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 the Managing Director determine 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, the 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.

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

Utrecht, 31 March 2017
PricewaterhouseCoopers Accountants N.V.

Original signed by
drs. J.W. Middelweerd RA

## Appendix to our auditor's report on the financial statements 2016 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 the Managing Director.

- Concluding on the appropriateness of the 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.

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, 2016 (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 89.4 thousand in 2016 (EUR 44 thousand in 2015). The trust office's board members each receive a remuneration of EUR 5.0 thousand on an annual basis.

In the year under review, the Board met five times, of which four times through telephone conference. During its first meeting on April 29, 2016, the 2016 annual report and financial statements, the company's strategy and its implementation, the composition of the company's supervisory board 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 vote in favor of all motions tabled. Further, the Board unanimously resolved to appoint Mr. Marco Nieuwe Weme and Ms. Yvonne Van Rooy as members of the Board. During the meeting held on May 11, 2016, the Board discussed the composition of the company's supervisory board. During its meetings on July 12, 2016 and August 18, 2016, the Board discussed the succession of the president of the company's supervisory board, the agenda for the extraordinary General Meeting of Shareholders and the way in which the Board would vote in relation to the proposal by the supervisory board to appoint Prof. Perrick. The unanimous decision was made to vote in favor of this proposal tabled. During the meeting of October 31, 2016, the board discussed the proposal to change its voting policy and the outcome of the discussions that took place between the company's supervisory board and some depositary receipt holders.

In the company's General Meeting of Shareholders which took place on May 19, 2016, 98% of the company's issued capital was represented. The trust office granted authorization to holders of 64.2% of all depositary receipts to vote independently on the shares for which they held the depositary receipts. The trust office exercised the right to vote on the remaining shares for which depositary receipts were issued and therefore represented 35.6% of the votes cast in the meeting.

In the company's extraordinary General Meeting of Shareholders which took place on August 24, 2016, 99% of the company's issued capital was represented. The trust office granted authorization to holders of 56.1% of all depositary receipts to vote independently on the shares for which they held the depositary receipts. The trust office exercised the right to vote on the remaining shares for which depositary receipts were issued and therefore represented 43.3% of the votes cast in the meeting.

## Board composition

At December 31, 2016, the composition of the trust office's board was as follows:

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

Mr. Boll stepped down in 2016 because of the maximum term of appointment. The Board would like to thank Mr. Boll for his contribution and dedication to the trust office. The Board has appointed as his successor Mr. Marco Nieuwe Weme, professor of Company Law at Nijmegen Radboud University and deputy Judge at the Court of Appeal in Amsterdam (Enterprise Chamber) for a term of four years. In addition, the Board has reappointed Ms. Yvonne Van Rooy in 2016 for a term of four years.

Due to health reasons, Mr. Kuiper has decided to step down as a chairman and to continue as a Board member. On February 16, 2017, the Board has decided that Mr. Nieuwe Weme be designated as the new chairman of the Board, starting after the close of the meeting of depository receipt holders held on February 16, 2017.

## 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 is of the opinion that proper protection against hostile takeovers 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.

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 is of the opinion 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 prepared at all times 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, 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, 31 March, 2017

Stichting Administratiekantoor Koninklijke Brill
The Board

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 2016, 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 | 2017 | Vice chairman |
| Joris P. Backer, LL.M. | 2008 | 2017 | Secretary/treasurer |
| Rudy P. Voogd, LL.M. | 2005 | 2017 | Member |

The Board of the foundation aims to meet at least once a year. One meeting in person took place in 2016 (April 6). In this meeting, the company's 2015 results, the implementation of the strategy, financing, acquisitions, market developments, and the general course of events within the company were discussed. Mr. Van Sterkenburg was reappointed as chairman 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. At the annual meeting in 2017, Mr Rudy Voogd is scheduled to retire from the board whereas Mr Herman Spruijt and Mr Joris Backer are eligible for re-appointment.

## 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, 31 March, 2017

Stichting Luchtmans,
The Board

## FINANCIAL AGENDA 2017

**Annual General Meeting of Shareholders**
May 16, 2017 (2.00 PM at the Brill premises)

**Publication of Results First Half Year 2017**
August 24, 2017 after stock market close

**Trading Update Third Quarter 2017**
November 14, 2017 after stock market close

## FINANCIAL AGENDA 2018

**Announcement of Results 2017**
March 15, 2018 after stock market close

**Publication Annual Report 2017 on corporate website (brill.com)**
April 5, 2018

**Trading Update First Quarter 2018**
April 19, 2018 after stock market close

**Annual General Meeting of Shareholders**
May 17, 2018 (2.00 PM at the 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 www.brill.com/resources/corporate/investor-relations. In addition, information may be requested via the following address.

KONINKLIJKE BRILL NV
Investor Relations
P.O. Box 9000
2300 PA Leiden
The Netherlands

T + 31 71 53 53 500
E ir@brill.com
www.brill.com

# ABOUT THIS ANNUAL REPORT

## Annual report and Brochure

This annual report is available in PDF format on www.brill.com under Resources/Corporate/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 2016' will also be available on www.brill.com under Resources/Corporate/Investor Relations.

## Colophon

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

TUTA SUB AEGIDE PALLAS · 1683 ·

BRILL