BRILL

ANNUAL REPORT 2018

KONINKLIJKE BRILL NV

Supervisory Board

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Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

Management Board

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This annual report is available as PDF: https://brill.com/page/InvestorRelations/investor-relations

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Directors' report for the year 2018

Introduction by the CEO

The year 2018 was a challenging year with disappointing results especially during the first three quarters. However, November and December sales results led to a turnaround and revenues stabilized. Substantial progress was made on improving gross margin, updating our corporate strategy and management structure, integrating previous acquisitions, launching the new Brill.com platform, starting a profit improvement plan and on the continuous development of Brill's publishing program.

After 14 years of service as Managing Director and CEO, Herman Pabbruwe retired. During his tenure many circumstances in- and outside Brill changed profoundly. Digital publishing became the default format and Brill expanded by a large number of acquisitions and by growing our market coverage and presence. We are thankful for his contributions to the growth and development of the company, which benefited all our stakeholders.

Effective as of the Annual General Meeting in May 2018, the new Management Board consisted of two statutory directors: Peter Coebergh as CEO and Olivier de Vlam as CFO/COO. Jasmin Lange, Chief Publishing Officer, joined them in the new Executive Committee. Unfortunately, our CFO/COO Olivier de Vlam was required to step down temporarily in September due to a serious illness. We hope to have him back in our midst during the second half of 2019. As per November 1st, 2018, he was replaced as CFO by Wim Dikstaal and his COO responsibilities are temporarily handed over to the CEO. As a consequence this annual report and the financial statements will only be signed off by the CEO, Peter Coebergh.

The year 2018 also marked the festive occasion of our 335th anniversary. It is a source of continued pride that our company has successfully weathered the ever-changing climate in our industry and has maintained an excellent market position and reputation among authors and customers alike. The new Executive Committee is convinced that 'staying relevant' continues to be a key driver for future success. The Executive Committee has therefore developed a new mission statement in which Brill explains how we plan to remain relevant for all our stakeholders (refer to Corporate Strategy).

In 2018, Brill achieved a record output of books and journal issues and open access publications, reflecting continued evidence that authors trust us to disseminate the work that they have devoted so much time and energy to. We aim to be at their side and ensure that they have the best possible publishing experience. This is the cornerstone to our competitive advantage. Therefore, we further elaborated our corporate strategy by adding an imperative that articulates our continued commitment to publishing excellence through service, support and infrastructure. For our publication program in the coming years, we have acquired more than 15 new journals, most of which with an existing subscription base or subsidy for open access. Further, we have closed several long-term institutional partnerships for prestigious open access projects which will contribute to revenue in 2019 already. Brill continues to support the scholarly community's drive for open access publication. At Brill, authors can choose their preferred publishing model depending on their funder's policies, but always underpinned by our commitment to scholarly excellence and the peer reviewing process. We are actively participating in discussions with various actors, such as cOAlitionS, university boards, funding agencies and librarians to manage the transition of subscription models to a sustainable open access model.

We also completed key programs in our back office that solidify our competitive position. The renewed brill.com was launched in November 2018 and combines all book and journal content, full catalogue and all corporate information. It is optimized to be accessed from any device and showcases our author's publications in a researcher-centric interface, supporting scholars with improved accessibility, tooling and e-commerce processes. The new Brill.com platform will be a strong asset for the coming years.

Schöningh & Fink, our subsidiary in Germany, was further integrated in the workflows and management organization of Brill. The most recent acquisition mentis Verlag in Germany was fully integrated in Schöningh & Fink. The integration of Sense was also completed by the end of the year.

In 2018, Brill's revenue decreased by -1.2% to 36.0 million (2017: 36.4 million). Organically, excluding the effect of acquisitions, currency and accounting changes, revenue was stable.
In the US we experienced a strong decline in print book sales and one-off eBook sales. Print and eBook sales in Europe did well and our journal revenues grew globally by a healthy 6%. In China our sales continued to grow steadily, but other important Asian markets like Japan and South-Korea saw an overall decline in sales. Brill's strategy to expand in Asia was further developed by a Brill re-launch in India and by the appointment of a locally based exclusive agent.

Although the cost of goods sold developed positively and as a result, gross margin increased from 65.5% in 2017 to 67.8% in 2018, EBITDA ended at 3.6 million, a decline of 12.8% versus 2017 (4.2 million). This is mainly due to the revenue development, combined with an increase in personnel and operating costs. During 2018 we faced significant delays in the development and launch of our new online platform Brill.com, leading to higher than anticipated development costs and a period of 8 months with double platform costs.
Our personnel costs increased by 0.8 million or 6%, mainly due to an increase in average FTEs of 6 (0.4 million or 3.6%) and Central Labor Agreement (CLA) related increases in salaries (0.2 million or 2.1%). Additionally, Brill suffered in 2018 from personnel and capacity problems in the finance department, a result of key people either leaving Brill or being ill for a sustained period. Consequently, temporary staff had to be hired against a relatively high cost of 0.2 million.
Brill management is convinced of the need to structurally improve profitability to maintain its ability to sustainably create value. A profit improvement plan was launched in Q3 of 2018 and already started to deliver some savings in Q4, 2018. This plan entails various actions to improve efficiency and financial control, leading to a recurring reduction in costs of 0.7 million as of 2019.

Included in the stand-alone company statement of financial position is the correction of the 2017 financial statements, related to prior year's reclassification of content from inventory to intangible assets. We concluded with our auditors that based on Dutch requirements a legal reserve should have been formed in the 2017 company financial statements, equal to the amount of the capitalized content costs. We did form this legal reserve in the 2018 company financial statements and have restated the comparable 2017 numbers as if the legal reserve was formed by the end of December 31, 2017. This has no effect on the consolidated financial statements as this legal reserve is not required under IFRS.

In 2018 Brill changed its capital structure to finance an extraordinary dividend pay-out of € 3.00 per (certificate of) ordinary share. Furthermore, we wish to adhere to our corporate solvency policy of 40-60% and to the covenants agreed with our new corporate bank. At the end of 2018, the solvency rate was 42.0%.
We will propose to the General Meeting of Shareholders that will be held on 16 May 2019, an all-cash ordinary dividend of € 0.85 per (certificate of) ordinary share. Based on our net profit attributable to our shareholders, this is a 100% pay-out ratio.

The General Data Protection Regulation (GDPR), a new law designed to protect the personal data and privacy of EU residents became effective May 25th, 2018. During the remainder of 2018, Brill took the necessary actions to reach compliance; there has been no risk to data privacy for any stakeholders during the period.

As usual we have to contend with many market- and geo-political uncertainties. For 2019, the upcoming Brexit is the most urgent. In order to mitigate any negative effects from Brexit, Brill has developed various alternatives together with our distribution partner in the UK and our printing on demand (POD) provider in the Netherlands. As the outcome of the Brexit process is highly uncertain, solutions based on several possible Brexit scenarios have been developed and prepared.

We are convinced that our updated long-term strategy, increased sales efforts in the Americas and Asia and the in 2018 launched profit improvement plan will yield sustainable value for all our stakeholders and will enable us to maintain the balance between Pallas Athena and Hermes as we have done for the past 335 years.

Leiden, April 4, 2019

Peter Coebergh
Chief Executive Officer

KEY FIGURES

All amounts: x 1,000

	2018	2017	2016	2015	2014*
Results					
Revenue	35,951	36,394	32,177	30,809	29,601
Gross profit	24,383	23,843	21,019	20,412	19,987
EBITDA [1]	3,623	4,156	4,496	3,794	3,680
Operating profit	2,360	3,315	3,712	3,015	2,675
Profit for the year	2,304	2,260	2,797	2,332	2,153
Free cash flow [2]	817	-43	2,329	3,201	822
Net cash flow from investment activities excluding Content	-1,732	-3,996	-2,131	-962	-2,765
Average invested capital [3]	20,276	22,008	20,973	21,224	21,001
Growth compared to previous year					
Revenue	-1.2%	13.1%	4.4%	4.1%	1.1%
Gross profit	2.3%	13.4%	3.0%	2.1%	0.7%
EBITDA [1]	-12.8%	-7.6%	18.5%	3.1%	-18.3%
Operating profit	-28.8%	-10. 7%	23.1%	12.7%	-23.1%
Profit from continued operations	1.9%	-19.2%	20.0%	8.3%	-12.5%
Profitability					
Gross profit as % of revenue	67.8%	65.5%	65.3%	66.3%	67.5%
EBITDA as % of revenue	10.1%	11.4%	14.0%	12.3%	12.4%
Operating profit as % of revenue	6.6%	9.1%	11.5%	9.8%	9.0%
Profit for the year as % of revenue	6.4%	6.2%	8.7%	7.6%	7.3%
Revenue/average invested capital	1.8	1.7	1.5	1.4	1.4
NOPLAT as percentage of revenue	5.0%	6.7%	8.5%	7.2%	6.7%
ROIC	8.8%	11.1%	13.0%	10.1%	9.3%
Balance sheet ratios					
Shareholders' equity / total assets	42.5%	56.0%	58.6%	58.1%	59.1%
Current assets / current liabilities [4]	0.78	0.95	1.11	1.73	1.83
Personnel					
Average number of employees (FTE)	167	161	132	132	132
Revenue per employee	215	226	244	233	224
EBITDA per employee	22	26	34	29	28
Average personnel costs per employee (FTE)	70	67	71	68	63

* Restated figures, refer annual report 2015.

[1] EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization, the operating income before the amortization of intangible fixed assets and the depreciation of tangible fixed assets, and excluding exceptional costs. 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 and net tax receivables and financial instruments. See note 23.
[4] 2017 and 2016 impacted by reclass of content to fixed assets.

Data per Share

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

	2018	2017	2016	2015	2014*
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	11.09	14.62	14.69	14.49	14.32
Increase/decrease in %	-24.2%	-0.5%	1.4%	1.2%	-1.4%
EBITDA per share	1.93	2.22	2.40	2.02	1.96
Increase/decrease in %	-12.9%	-7.6%	18.8%	3.1%	-18.3%
Earnings per share	1.23	1.21	1.49	1.24	1.15
Increase/decrease in %	1.6%	-19.1%	20.2%	7.8%	-12.5%
Free cash flow per share	0.44	-0.02	1.24	1.71	0.44
Increase/decrease in %	2001%	-101.9%	-27.5%	289.3%	-68.6%
Dividend per share	0.85	1.32	1.32	1.24	1.15
Increase/decrease in %	--35.6%	0%	6.5%	7.8%	2.7%
Pay-out ratio	70%	109.1%	88.4%	100%	100%
Extraordinary dividend per share	0	3.00	0	0	0
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	41.20	37.36	28.00	27.95	25.83
Lowest share price during the year	17.20	27.29	20.95	22.70	21.95
Share price at year end	17.80	35.50	27.73	23.36	25.73

* Restated figures, refer annual report 2015.

Company Profile

History

When the then general manager Evert Jan Brill (1812-1871) bought the Leiden-based publisher Luchtmans in 1848 and re-named it under his own name, he continued the business started by Jordaan Luchtmans (1652-1708) in 1683. In 1896, Brill became a publicly listed company and one hundred years later, in 1996, the word 'Koninklijke' (royal) was added to the firm's name. Throughout the twentieth century Brill developed into a significant international scholarly publisher, focusing on an expanding portfolio of subject areas. In 2017, Brill took the step to establish itself in Germany through the acquisition of Schöningh & Fink.

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 and KITLV. At the end of 2013, Brill acquired Hes & De Graaf, followed by Editions Rodopi BV in the summer of 2014, Schöningh & Fink effective 1 January 2017, Sense in July 2017 and mentis Verlag as per 1 January 2018. Brill currently uses the following imprints: Brill | Nijhoff, Hotei, Brill | Hes & De Graaf, Brill | Rodopi, Brill | Sense. For the time being, the imprints Ferdinand Schöningh, Wilhelm Fink and mentis are maintained as stand-alone imprints.

Books play a major role in the humanities, unlike the fields of natural sciences and engineering where the journal format is dominant. Brill also supplies primary source material, such as scans of historic archives and collections of documents, which are primarily sold online. Digital sales have grown in recent years and generated in 2018 53% of our revenue. Digital will be the prevailing format across books, journals and primary sources. Brill pursues innovation through its involvement in the Digital Humanities where innovative uses of technology in both research and publication methods contribute to further development within our core markets.

Brill distributes the e-version of its products directly on Brill.com and through third party platforms, thereby strengthening its position and the dissemination of its publications. Due to the long-term value of scholarly information in the humanities, the lifespan of our products is generally long. Since 2007 all new books are available as eBooks and some of our much older and long-running book series were also digitized and offered to 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 Clients

Brill has been an international player from the start. More than ninety-five percent of Brill's sales are generated outside of the Netherlands, comparable to the proportion of Brill's authors who reside abroad. Most clients are in Europe and North America, with Asia becoming more important every year. Brill is in contact with all leading global academic research centers but cherishes its traditionally strong link with the University of Leiden. Due in part 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.

Marketing and Sales

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

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

Brill's marketing and sales strategy is focused on achieving the widest possible distribution of its products to reach beyond its primary market of professional colleagues targeted by the author. Cooperation with companies such as Google, Scopus and other platforms increases the discoverability of Brill's publications and, thereby, its ability to operate more successfully in the present information society. In Germany, Brill, with the Schöningh & Fink imprints, continues to operate also through bookstores thus reaching students and the general public interested in the humanities.

Publishing Rights and Distribution

Brill's publishing strategy consists of reinforcing 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, including open access options.

Organization and Employees

Brill is a centrally managed company with several corporate and delegated functions. The two statutory directors together form the Management Board, responsible for Corporate and Governance affairs. Day-to-day management of Brill is entrusted to an Executive Committee consisting of the two statutory directors in their roles of CEO and CFO/COO and the CPO (Chief Publishing Officer). The Executive Committee meets every two weeks. The primary business activities rest with the publishing units, which focus on the key subject areas in which Brill operates. The acquisition editors within the publishing units are responsible for publication development and contact with editors and authors. They are supported by four departments: Sales, Marketing, Finance & Operations and HR. The Heads of these departments together with the members of the Executive Committee form the extended Management Team that meets once a month. Our local legal entities in Boston, Singapore and Paderborn are managed by local statutory directors, who meet monthly with the Executive Committee in a video conference.

CORPORATE GOVERNANCE

Koninklijke Brill NV, a public limited company under Dutch law, with its registered office at Plantijnstraat 2, 2321 JC Leiden, is the parent company of the Brill Group. The share capital of the company is divided into ordinary shares and cumulative preference shares. There are currently no cumulative preference shares issued. Of the issued ordinary shares, approximately 99% are certified and administered by the Stichting Administratiekantoor Koninklijke Brill NV. Only share certificates are listed on Euronext Amsterdam. Most certificates are held by Dutch investors. Almost 60% of the certificates are held in tranches of 3% or more. In the context of the Financial Supervision Act, the following holders of share certificates, on December 31, 2018, 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 S.A.	6%	20 July 2016
Teslin Participaties Coöperatief U.A.	6%	6 July 2017
J.P. van Slooten	5%	11 April 2017
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
Add Value Fund N.V.	3%	18 July 2014

Koninklijke Brill NV is a statutory two-tier company (operating under the Dutch 'structuurregime'). The articles of association, available on the company's website, regulate inter alia the appointment and dismissal of Supervisory Board and Management Board members, the rights allocated to the Annual General Meeting and the amendment of the articles of association.

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

The proceedings of the Annual General Meeting of Shareholders follow the stipulations of the Dutch Civil Code and are detailed in Brill's articles of association (available at brill.com). Brill's most notable deviation from the Code is the policy regarding use of certification as a possible method of protection.

Brill is a relatively small, highly specialized and profitable publisher, active in an industry that is in consolidation. Also, the sensitive nature of Brill's relationships with its key stakeholders, amongst which authors, librarians and scholars, whose continued trust is the cornerstone under our business' value, requires careful weighting of each major strategic change. Therefore, the Executive Committee deems protection against hostile takeovers to be necessary. Accordingly, the company has implemented defensive structures.

Firstly, the company has cooperated with the issuance of certificates of shares and these can be seen as a defensive measure in that the Stichting Administratiekantoor Brill (Trust Office) reserves the right in the event of situations as referred to in Art. 2:118a.2 DCC, not to issue voting proxies nor to accept binding voting instructions. Share certificates will be maintained as long as they contribute to the set of measures that aim to ensure sufficient protection and balanced decision making on the future of the company.

Secondly, Brill has the possibility of issuing preference shares. In the event of such an issue, the preference shares would be placed with Stichting Luchtmans, which has the right to acquire preference shares to a maximum of 100% of the ordinary issued share capital.

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

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

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

Diversity is an important aspect of the corporate management culture, as expressed in Brill's Core Values, where Brill states the importance of diversity and inclusiveness. Consequently, it is Brill's objective to achieve a balanced composition of all its governance bodies. As of May 2018, the company's management body, the Executive Committee consists of two statutory directors, both male, and a female CPO. The extended Management Team (which includes the Executive Committee) consists of seven people of which three are female. The company has a Supervisory Board consisting of three persons, of which one is currently female. Given the current composition of the management layers below the Executive Committee, Brill believes that maintaining this balanced distribution will be sustainable in the future.

Regarding transparency between the statutory directors and the Supervisory Board, and between Supervisory Board members themselves, clear agreements were made. The employment agreements are drawn up in line with the best practice provisions of the Code. The company's existing rules of conduct, including regulations on insider trading, sexual intimidation, fraud and corruption and rules for misconduct reporting, are available at brill.com.

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

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

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

Regarding aspects of best practice provisions not relevant to protection, the Management Board and the Supervisory Board remain of the opinion that these are further supplementing the existing corporate governance structure. The experience the company has gained with the introduction of provisions in respect to corporate governance has been favorable. We are of the opinion that Brill's current governance supports strategies that help create long-term value.

Supervisory Board
Chief Executive Officer

Brill Core Values and General Business Principles

Introduction

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

LIVING BY OUR PRINCIPLES

The Executive Committee formed in 2018 developed a new mission statement:

"We operate from a strong belief that the Humanities, Social Sciences and International Law are areas of scholarship vital for addressing today's global challenges. This belief motivates us to offer our authors the best possible service and infrastructure to disseminate their research. In order to advance discovery and learning we are keen to support scholars by providing them with access to the finest research tools and reference works in their fields. The relevance and high quality of the works we publish is key to the sustainability of our business."

Brill meets a need for multimedia information amongst specialist academic target groups and markets. To achieve its mission, the company must add value and grow consistently, mainly by increasing its market share and expanding its customer base in the fields in which it is active as well as in adjacent niches. The overriding objective is to maximize Brill's long-term value creation benefitting all stakeholders, including the global community that provides Brill its license to operate.

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

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

OUR VALUES

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

RESPONSIBILITIES and SUSTAINABLE VALUE CREATION

As part of the General Business Principles, we commit to sustainable development of our company. We are aware of Brill's legacy and are committed to an equally illustrious future. This requires balancing short- and long-term interests, integrating business, environmental and social considerations into our decision-making. At Brill, we believe that creating sustainable value for all stakeholders is essential to ensure the long-term viability of the company. The company's ability to create value hinges on achieving a balance between serving the scholarly community and business considerations. To achieve this balance, we define value in terms of value created for our stakeholders. This value creation and Brill's standing with each of these stakeholder groups is the condition for our company to remain relevant within a changing media landscape.

We recognize the following stakeholders and areas of value creation:

- Authors – Publishing Service Value
- Librarians and funders – Account Service Value
- Readers – Content and Usability Value
- Investors – Economic Value
- Staff – Development Value
- Global Community – Community Value

The Principles

Principle 1 ECONOMIC PERFORMANCE
Long-term profitability is essential to achieving our business goals and to our continued growth. It is a measure both of efficiency and of the value that customers place on Brill products and services. It supplies the necessary corporate resources for the continuing investment that is required to develop and produce future publications to meet customer needs. Without profits and a strong financial foundation, it would not be possible to fulfil our responsibilities. Criteria for investment and divestment decisions include sustainable development considerations (economic, social and environmental) and an appraisal of the risks of the investment. Risk management is a key element of our management process of sustainable value creation.

Principle 2 QUALITY SCHOLARLY SERVICE
Brill companies aim to provide the scholarly community with the highest level of quality and service. To this end, Brill invests not only in developing its network of scholarly authors and editors but also in offering them sound processes of peer review, continuous availability of their publication, editorial tools and standards that meet up to date requirements for digital dissemination, competitive production quality and a reliable distribution channel that ensures availability at each author's target audience of academics who use new technology in an increasingly networked digital environment. We are committed to standards of editorial integrity and independence, and our editorial policy only applies academic quality as a criterion for publishing, not adherence to any political, religious or other non-academic viewpoints.

Principle 3 BUSINESS INTEGRITY
Brill companies insist on integrity and fairness in all aspects of business and expect the same in our relationships with all those with whom we do business. The direct or indirect offer, payment, soliciting or acceptance of bribes in any form is unacceptable. We do not engage in the practice of facilitation payments to speed up or secure the performance of a routine government action. Employees must avoid conflicts of interest between their private activities and their part in conducting company business. Employees must also declare potential conflicts of interest. All business transactions on behalf of a Brill company must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and are subject to audit and disclosure. As a publicly listed company, Brill follows all rules around insider trading.

Principle 4 POLITICAL ACTIVITIES
Of companies
Brill companies act in a socially responsible manner within the laws of the countries in which we operate. Brill companies do not make payments to political parties, organizations or their representatives. Brill companies do not take part in party politics. However, when dealing with governments, Brill companies have the right and the responsibility to make our position known on any matters, which affect us and our stakeholders, which is in accordance with our values and the Business Principles.

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

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

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

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

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

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

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

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

The Executive Committee monitors the effects of above-mentioned policies on a regular basis by discussing them with the HR manager, the appointed trusted persons and the Works Council.

VALUE CREATION PROCESS AT BRILL

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

Authors – Publishing Service Value

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

Librarians and funders– Account Service Value

Our publications can be found in the most eminent institutions in each field in which we publish. In working with these institutions, we strive to offer flexible and attractive models that enable libraries and funders to work with us efficiently. We offer our content through platforms which enable them to provide library patrons with easy access to our publications. We provide librarians with data and tools to evaluate the use of our services to their patrons and to calibrate their purchasing decisions. We offer funders flexible models to subsidize scholarly research of choice, either in traditional or in open access models. We work with global distribution partners that enable efficient ordering processes.

Readers – Content and Usability Value

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

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

Investors - Economic Value

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

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

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

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

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

In 2018, Brill reported mixed results on its economic value drivers. Revenue declined by -0.6% - but because of the new bank loan, asset turnover increased from 1.7x to 1.8x.
NOPLAT margin dropped and consequently ROIC declined from 11.1% to 8.8%. For details, please refer to note 23 to the Consolidated Financial Statements.

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

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

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

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

RISK MANAGEMENT

Risk Management policy

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

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

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

Risk Management

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

Organization and Governance – The organizational structure and culture of Brill must support identification of risk and avoidance of risk by taking well informed decisions on a timely basis. This requires certain levels of delegation and empowerment. Governance must ensure an adequate framework of accountability.

Internal Control Framework – The framework of internal controls must provide reasonable assurance that:
- Business processes are carried out effectively and efficiently.
- Financial statements adequately reflect the business' financial position and development.

Business Policies – The framework of business policies must ensure that Brill can:
- Capture business opportunities.
- Avoid undue risk of losses to company assets.
- Execute on its strategy.

Risk management is in the hands of the Executive Committee. Day-to-day supervision lies with the CFO/COO, and execution is delegated as follows. Design, implementation and execution of financial control measures is carried out by the Group controller, whereas the design, implementation and execution of IT related controls are carried out by the team that is accountable for administration of the system. Specific measures and improvements are implemented, driven by a combination of the Executive Committee's assessment of current risk profiles and the annual management letter supplied by the external independent auditor. Brill's Supervisory Board reviews all reporting by the external independent auditor. Due to the small scale of operations and the high degree of centralization of accounting, Brill does not have an internal auditor. The decision to abstain from appointing an internal auditor is reviewed annually by the Supervisory Board.

Risk Classification

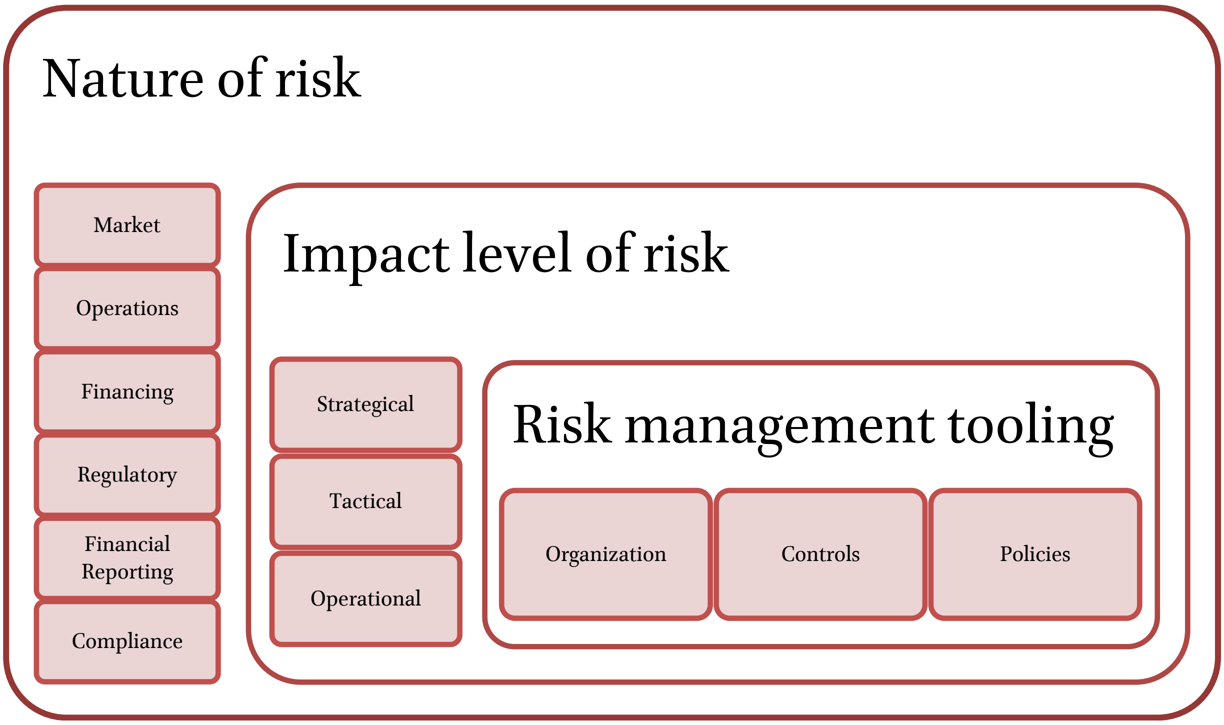
To assign risk management accountability correctly within the organization, Brill classifies risks as follows:

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

B. Nature of the risk

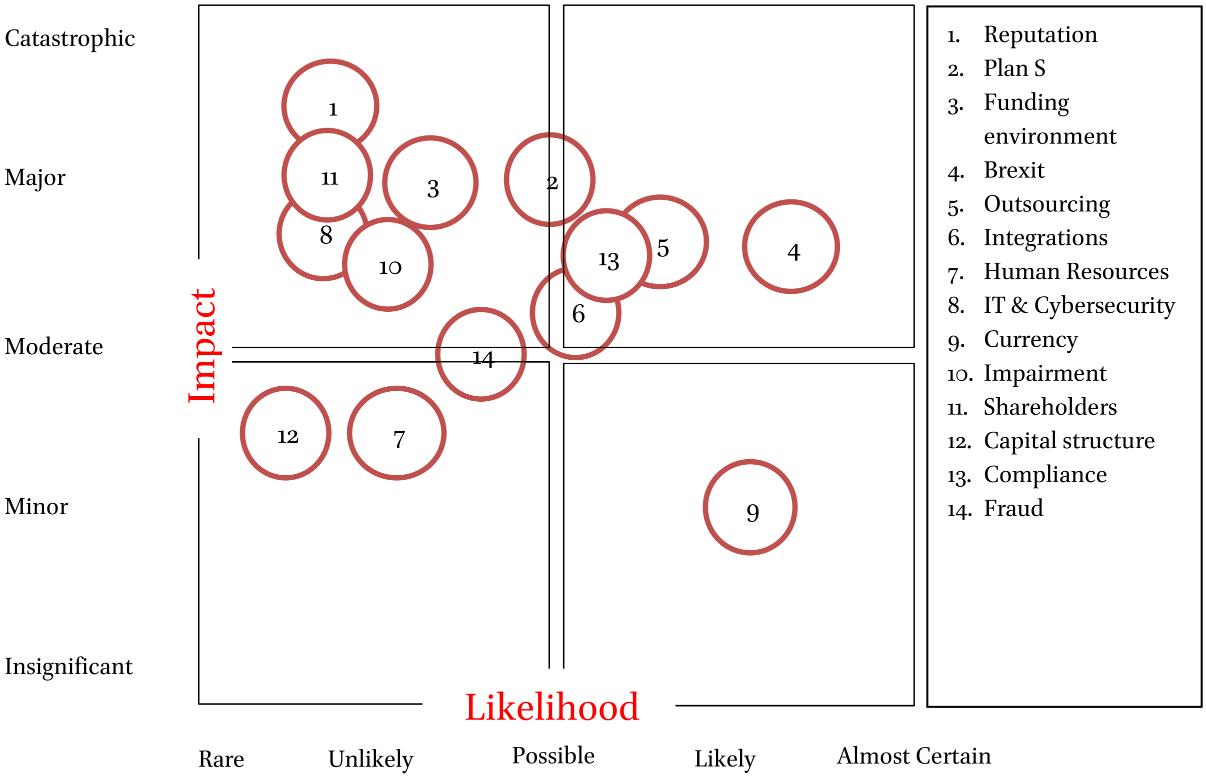
- Market – the risk relates to a change in market circumstances that impacts market participant's propensity to purchase Brill's product, to use Brill as their publisher of choice, or to supply goods and services required by Brill at economically viable rates.
- Operations – the risk relates to an event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

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



Discussion of specific risks with impact at the strategic level

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



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

Nature of the Risk	Description of the Risk	Objective threatened	Risk appetite (1=lo & 5=hi)	(Type of) Mitigation in place
Market	*1. Reputation:* Various events may impact the company's reputation versus its stakeholders which is the cornerstone to Brill's ability to run and develop its business.	Strategic objective to expand in current and adjacent subject fields	1	*Organizational:* Organizational structure that enables the company to react and adapt flexibly to changing market circumstances. *Business policies:* Editorial policies including diligent peer review and checks on plagiarism, communication policy, investor relations policy, code of conduct.

	2. *Plan S:* Review of open access policies of major funding bodies like the ERC, UKRI, DFG, NWO.	Maintaining a sustainable journal program	2	Hired a dedicated Program Manager Open Access. Reviewed and improved open access workflows. Active participation in open access discussions with relevant actors.
	3. *Funding environment:* Our customers and authors depend on their respective governments' and societies' willingness to fund research in the humanities and social sciences incl. purchases at Brill and their collaboration with Brill.	Expand in current and adjacent subject fields	3	*Business policies:* Increased focus on repeatable business, expansion into adjacent market segments, tap alternative funding sources (ERC) + set up work-flows to support authors to get funding for open access publication.
	4. *Brexit:* Especially a no-deal Brexit may lead to distribution problems for our distributor Turpin based in the UK	Profit improvement	2	Plans for various Brexit scenarios have been developed with Turpin and our POD printers to avoid distribution problems.
Operations	5. *Outsourcing:* Failed outsourcing may impact business continuity or quality and pricing of services used leading to reduced competitiveness.	Enhance operating capacity	2	*Organizational:* Quality of Brill staff. *Control measures:* SLA's, vendor selection process. *Business policies:* Insurance, contingency and back-up measures.
	6. *Integrations:* Limited capacity to integrate acquisitions.	Realizing benefits of new acquisitions	2	Plan integration processes carefully. Hire interim staff for specific projects.
	7. *HR Risk:* We may not be able to attract and retain the right staff.	Achievement of strategic plan	2	*Business policy:* Develop Brill reputation and culture as attraction and retention mechanism.
	8. *IT and cybersecurity risk:* Deficiencies in our IT general controls may lead to reduced efficiency, business continuity and increased risk of fraud or exposure to cybersecurity risks.	Enhance operating capacity	2	*Control measures:* IT general controls like segregation of duties, IT user & access management policies (firewalls, passwords). *Business policies:* Contingency and back-up measures, security measures, communication on IT and cybersecurity risks.

Financing and other	9. *Currency:* Significant swings in the USD / exchange rate may impact our results	Improve financial performance	2	*Business policies:* Hedging policy (refer to financial statements).
	10. *Impairment risk:* The company carries substantial intangible assets on its consolidated statement of financial position. Deteriorating business performance may lead to impairments which could cause substantial erosion of equity.	Improve financial performance	2	*Internal controls:* Annual review of the value of intangible assets. *Business policies:* Conservative valuation calculations when doing acquisitions, reduction of assets required to run the business.
	11. *Shareholders:* Investors may not be willing to fund Brill's strategic plan.	Expand in current and adjacent subject fields	1	*Business policies:* Investor relations policy, dividend policy, focus on financial performance improvement. *Internal Controls:* Framework of controls aimed at financial reporting reliability.
	12. *Capital structure*: Rabobank loan. Covenants are part of the loan agreement. Significantly lower results may lead to breaching the covenants.	Financial stability	2	*Business policy:* Managing debt and equity, following financing policies and monitoring ratio's. Profit improvement plan and cost saving initiative.
Regulatory	13. *Compliance:* High audit costs due to increased IFRS and other regulations for listed companies.	Improve financial performance	1	*Business policies:* Better qualified staff and processes in finance. Improved audit workflows.
	14. *Fraud:* Brill's expanding business in certain countries might raise the risk of fraud or corruption by third party intermediaries for which Brill can be held liable.	Financial stability, reputation	1	*Business policies:* Agreements with all intermediaries that they accept our Code of Conduct and Business Principals. CEO approval for all contracts with and payments to third parties in these countries. Project with PSI/STM.

Risk management and internal control in 2018

In 2018 Brill made limited progress in enhancing the company's framework of internal controls, based on recommendations made by the external independent auditor following discussion with the Executive Committee and the Supervisory Board. Specific steps were taken in upgrading financial management, enhancing visibility of certain implemented controls and enhanced reporting systems to support management and external reporting. Improvements in controls concerning client access to our online databases result from our program to renew Brill's online platform.

The 2018 interim review performed by the external independent auditor reported limited progress on the issues and recommendations for improvement that were outstanding by the end of 2017. However, due to staffing shortage some issues have not been solved in 2018 and are now deferred. In general, the improvement opportunities center around IT General Controls and the visibility and formalization of implemented control measures, as well as on the balance in the framework of internal controls. The company takes this issue very seriously and will continue to work on improvements in 2019.

Publishing Program 2018

One of the strengths of Brill's publishing program is the variety of formats that we offer to researchers. Scholars publish their works with us as journal articles and books or contribute to the development of reference works and primary source collections. In 2018 we continued to foster this healthy product mix and focused our acquisition activities especially on journals, online resources and institutional partnerships for open access projects.

Most journals we contracted in 2018 were taken over from competitors and smaller institutional or society publishers. Such journals have an established readership, a functioning editorial board and a sustainable copy flow. We are pleased to welcome journals in all fields, amongst which *Global Governance* and the *Australian Yearbook of International Law* (International Law); the *Video Journal of Education and Pedagogy* and *Triple Helix* (Social Sciences); *Contributions to Zoology* (Biology); *Bandung: Journal of the Global South* and *Mawlana Rumi Review* (Area Studies); *AION* (Classics); *Religion and Gender* (Religion); as well as the *International Journal of Jungian Studies* and *Simone de Beauvoir Studies* (Philosophy). Next to acquiring existing journals Brill continues to develop new subscription and open access outlets, particularly in growing and emerging fields. Amongst others we are preparing the launch of *Public Anthropologist* (Social Sciences), *The European Journal on the Philosophy of Emotions* (Philosophy) and *Frankokratia* (History). With the *Journal of Urdu Studies,* we are increasing our portfolio on South Asia, one of Brill's strategic growth areas for the coming years. *Brill Research Perspectives* (*BRP*), a journal format that allows for publishing in-depth review articles, has established itself with 35 titles since its launch in 2014. This year we succeeded in acquiring six additional titles in Jesuit Studies, Quaker Studies, Byzantine Studies, Religion and Education, Religion and Politics, and Religion and Psychology.

In September a broad coalition of international funding bodies launched "Plan S", a plan to make all journal articles derived from publicly funded research available in open access. Under the leadership of the European Commission draft guidelines were developed to ensure a fair, efficient and transparent transition from the current reader-pays to a free access model. Together with a group of medium-size publishers Brill consulted with the leadership of the coalition to work towards sustainable models for the humanities and social sciences. As one of the early movers in open access publishing we aim to provide Plan S compliant publishing venues for all our authors.

The front list of our book program has developed steadily and acquisitions of new book series such as *Studies in Polar Law* (International Law), *Critical Approaches in Early Christianity* (Biblical Studies), *Political Ecology in the Asia Pacific Region* (Area Studies) and *Mapping the Past* (History) will further diversify the portfolio. In September we acquired and quickly integrated five well-established book series of DEO Publishing, strengthening our list in Biblical Studies and Theology. With 33 titles published in 2018 we have significantly grown our open access book program to more than 330 titles. More importantly, we have established several long-term partnerships with institutions and funding bodies to publish new book series in open access. With the European Research Council (ERC) we will publish 5 new book series with a total of at least 40 volumes in the coming years. In addition, *Anchoring Innovation* is a Leiden based research project in Ancient History that is funded by the Dutch NWO. We expect to publish 45 monographs and edited volumes in open access with researchers affiliated with this project. Together with the Max Planck Institute for European Legal History in Frankfurt we have established the series *Max Planck Studies in Global Legal History of the Iberian Worlds* (History) and expect to publish the first titles in 2020. Finally, the Saxon Academy of Sciences and Humanities is funding the publication of up to 20 open access volumes in the series *Bibliotheca Arabica.*

In September we released *Brill Companions Online*, a suite of eBook collections in the fields of History, Classical Studies, Religious Studies, Asian Studies, and Middle East and Islamic Studies. In total, the collection contains 285 research companions targeting both scholars and students. Moreover, our portfolio of reference works grew with several new titles, in particular in Middle Eastern Studies. The Wellcome Trust will fund an open access reference work on the *Literary History of Medicine,* and we reached an agreement with Columbia University to take over the print publication of the prestigious *Encyclopaedia Iranica*.

Our cooperation with German publishers on reference works remains fruitful. At year end we launched the *International Encyclopedia of Comparative Law* (International Law), which was previously co-published with Mohr Siebeck and available in print only. Now fully owned by Brill, we hope to further expand this reference work in the coming years. From Herder Verlag we acquired all rights to the *Lexikon der christlichen Ikonographie* (Art History). This important reference work in the field of iconography will expand Arkyves, our innovative reference tool to study imagery. In cooperation with Kohlhammer Verlag we launched the *The History of Global Christianity* in both English (print/online) and German (online). The *Pauly Supplements* (Classics), the *Encyclopedia of Early Modern History* and the *Encyclopedia of Jewish History and Culture* (Metzler Verlag) all published new volumes in 2018.

Digital primary sources continue to be a small but vibrant product format. With our expertise in online publishing, focus on editorial quality and excellent relationships with institutions and archives, we have developed a strong profile especially in History and Area Studies. In 2018 we digitized and launched *The Times Supplements*, *Basilica Online*, *Grotius Collection Onlin*e, *North China Daily News Online,* and *Cuban Culture and Cultural Relations, Pt. 2*. The Cuban collection was scanned at the Casa de las Américas in Havana and gives digital access to files covering more than a thousand writers, thinkers and artists from Cuba and abroad. For publication in 2019 we have reached agreements to digitize the *Moscow News* and *The Daily Worker* in cooperation with the International Institute of Social History, Amsterdam, and the *Augustus De Morgan Library* with Senate House Library, London.

In December 2016 we acquired the German imprints Ferdinand Schöningh and Wilhelm Fink and in mid-2017 the Dutch publishing house Sense. Sense closed its operations in Dordrecht only at the end of last year, which is the reason most integration activities took place in the past twelve months. While the development of the book front list of Sense suffered from changes in personnel, we were able to acquire the first three journals and a first reference work in the field of Education.

When Brill took over Ferdinand Schöningh and Wilhelm Fink both imprints were strong brands with a rich history, a distinct profile and a very active author and editor network. However, due to a lack of investment to internationalize and digitize the portfolios, the publishing houses were not sustainable in the long-term. Since the acquisition, the team in Paderborn has achieved a remarkable turnaround of the business with a new strategy, resulting in a significant improvement of profit margins. The publishing lists were pruned, international peer review standards introduced, and new product formats acquired. The *Lexikon für Kirchen- und Religionsrecht*, which will be published in early 2019, is the first major reference work to come out of Paderborn since the takeover. Several new book series and journals with international editorial boards are under contract, allowing for publication in German as well as English. The open access portfolio of Ferdinand Schöningh and Wilhelm Fink is developing above expectation thanks to partnerships with major German and Swiss funding bodies. At the beginning of 2018 we added the publishing list of mentis Verlag (Münster, Germany). The integration of this vibrant book list went smoothly, and the publishing activities quickly expanded to journals and other formats. With mentis on board the German program is one of the strongest players in the area of Philosophy.

More than 60 editorial staff develop and maintain Brill's publishing program in cooperation with researchers, institutions, societies and funding bodies. In 2018 acquisition editors performed in-depth analyses of their portfolios which will be part of our strategy going forward. In our key growth areas – International Law, Social Sciences, Area Studies, Philosophy and Linguistics – we increased our acquisition power by appointing senior editors and additional support staff. For our open access program, a dedicated and experienced program manager was hired, who will develop strategies, coordinate policies, and devise new business opportunities.

FINANCIAL REPORT 2018

General

Our financial statements were impacted by the implementation of IFRS15, the new accounting rule for revenue recognition. Under the new accounting policy, we were required to form a so called return asset of 0.3 million, which is reported under inventory, and a return liability of 1.3 million reported under short-term liabilities. These changes are presented as corrections to the opening balance of 2018, with the net effect reported under equity (0.7 million) and tax receivable (0.3 million).
Under IFRS15, postage and handling fees within Brill can no longer be reported as revenues but should be reported as a reduction of fulfillment expenses. The effect on our revenues versus 2017 is -0.1 million, or -0.4%.

Included in the stand-alone company statement of financial position is the correction of the 2017 financial statements, related to prior year's reclassification of content from inventory to intangible assets. We concluded that based on Dutch requirements a legal reserve should be formed in the company financial statements, equal to the amount of the capitalized content costs. This legal reserve was not formed via the retained earnings in 2017. We did form this legal reserve in the 2018 company financial statements and have restated the comparable 2017 numbers as if the legal reserve was formed by the end of December 31, 2017. This has no effect on the consolidated financial statements as this legal reserve is not required under IFRS.

Revenue

In 2018, Brill's revenue decreased by -1.2% to 36.0 million (2017: 36.4 million). Organically, excluding the effect of acquisitions, currency and accounting changes, revenue was stable.

(in million)	Revenue	% of total Growth	Year on Year Growth
Revenue 2017	**36.4**	100.0%	
Print books	(1.0)	-2.7%	-6.3%
eBooks	0.3	0.8%	3.1%
Journals	0.5	1.5%	5.8%
Primary Sources	(0,0)	-0.1%	-2.2%
Other	0.2	0.4%	37.8%
Organic Revenue 2018	**36.4**	**-0.1%**	**-0.1%**
Acquisitions	0.4	1.2%	n.a.
Currency	-0.7	-2.0%	n.a.
IFRS15 effect	-0.1	-0.4%	n.a.
Revenue 2018	**36.0**	**98.8%**	**98.8%**

Revenue generated through digital products was 19.0 million or 53% of total, versus 18.3 million or 50% in 2017.Revenue generated through subscriptions was 14.5 million or 40% of total revenue, up from 13.8 or 38% in 2017.
Despite our hedging activities, the change in the U.S dollar rate had a negative impact on our revenues. Around 42% of our revenues are in U.S dollar which averaged €/$ 1.18 in 2018 (2017: €/$ 1.12). Total effect was -0.7 million or -2% versus our total 2017 revenues.
Total book sales declined by 3%, mainly due to declining print and eBook sales in the US and parts of Asia (Japan and South Korea), whereas Europe showed an encouraging growth in print book sales.
Total journal sales grew by 6% reflecting successful sales efforts but also growth in subscription value, improved renewal management, journal acquisitions, and new journal title development.
Growth in the Americas was negatively impacted by very low one-off sales with our core customers of eBooks and eMRW's (Major Reference Works) in Q2 2018 which is the end of the budget year in the US. Also disappointing sales of our law backlist had a significant negative impact on US sales. A marketing program to acquire new customers was successfully implemented and the marketing strategy for backlist titles reviewed.

The number of major sales deals (i.e. over 100 thousand per order) versus last year was slightly positive. Among others, we successfully closed large deals with new and existing clients in China, Singapore, Canada, and Greece. As expected, some of these deals included both renewals from deals closed with these customers in previous years, as well as new business.

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

Total cost of goods sold improved by 1.0 million or 8%. This positive development results from the lower print book sales volume and the high level of one-off items in last year's number. Also we continue to see lower expenses from stock depreciation as our stock value dwindles further due to our POD policy. Finally, we see our lower typesetting cost translating into lower cost of content amortization. All this resulted in a gross margin of 67.8% versus 65.5% in 2017.
Personnel costs increased by 0.8 million or 6% in 2018 (2017: 15%) excluding restructuring costs (severance). The increase was mostly caused by organic increases in salary costs (a total of changes in FTE, Collective Labor Agreement adjustments and mix). Growth in FTE originated from staff hired in the course of 2017 who were on the payroll for FY 2018 and 2 staff members from our purchase of mentis Verlag in Germany. Higher underlying salary expenses were compensated partly by higher capitalized expenses due to high project activity.
In 2018 we also recorded 0.2 million in restructuring costs related to our profit improvement plan. These exceptional costs are reported outside our EBITDA but are part of personnel costs.
Other operating costs increased by 0.5 million or 5%. The increase is partly caused by operational expansion (office costs, IT, support cost) but also by the situation in our finance department. Finance costs increased with 0.2 million which includes temporary staff to mitigate the heavy turnover in finance and the quality improvement efforts in finance started this year.

Depreciation and amortization, and financing revenues and costs

At 1.0 million, depreciation and amortization, other than recognized in cost of goods sold, were 25% higher than 2017. This increase was expected due to our recent capital investment activities. Financing results amounted to -0.2 million (2017: -0.2 million) with lower foreign exchange results balancing out the increased interest expense related to our new financing structure.

Profit and profit per share

Despite the higher gross result, EBITDA was lower than last year due to higher personnel and operating expenses. The lower EBITDA, higher depreciation and amortization and restructuring expenses resulted in lower net profit.
The number of outstanding shares remained the same relative to 2017. Consequently, earnings per share amounted to 0.85, down by 29.4% from 2017 (EPS 2017: 1.21).

Tax

Included in our tax result is an exceptional non cash income tax benefit of 695 thousand, due to remeasurement of deferred tax positions following a nominal tax rate change in the Netherlands (from 25% in 2018 to 20.5% in 2020). As these deferred tax positions are long term they are remeasured against the new tax rate applicable in 2019.

Operating Working capital and Cash flow

Book inventories declined further because of our POD policy (-0.6 million). However, due to the implementation of IFRS15 we have to report a Return Assets of 0.3 million that is part of inventories (see above under general), so total inventories remained around the 2017 level of 3.3 million.
Despite the decline in operating profit free cashflow improved versus 2017 as a result of lower acquisition expenditure.

Return on Invested Capital

Return on Invested Capital (ROIC) declined to 8.8% versus 11.1% in 2017, due to lower operating profit.

Solvency and Liquidity

Total assets (48.9 million) remained in line with 2017 (48.9 million). Equity amounted to 20.8 million at the end of 2018 versus 27.4 million at the end of 2017, mainly due to the extraordinary dividend of 3.00 euro/share. Solvency (Shareholders' equity divided by total assets) declined to 42.5% in 2018 (2017: 56.0%; target range of 40-60%).

Because of the high investment level, acquisitions and the lower results, mitigated somewhat by improved working capital, our liquidity at year end declined from 3.8 million in 2017 to 2.4 million in 2018.

Dividend

In 2018 Brill changed its capital structure to finance an extraordinary dividend pay-out of 3.00 per (certificate of) ordinary share. We wish to adhere to our corporate solvency policy of 40-60% and to the covenants agreed with our new corporate bank. At the end of 2018, the solvency rate was 42.5%.

We will propose to the General Meeting of Shareholders that will be held on 16 May 2019, an all-cash ordinary dividend of € 0.85 per (certificate of) ordinary share. Based on our net profit attributable to our shareholders, this is a 70% pay-out ratio.

Brexit

Depending on the outcome of the Brexit negotiations between the EU and the UK, our business may suffer in 2019 from distribution delays of our backlist book titles, as our warehouse with stocked titles is located in the UK. Various plans to reduce the risks of loss of business have been developed together with our distribution partner and our POD provider in the Netherlands and will be implemented according to the actual Brexit situation.

Outlook

Brill's annual reports do not include numerical statements about future developments in terms of revenue and results. Our focus is on further development of the publishing program and getting the value out of our recent investments, whereas longer term we seek to expand and enhance the portfolio in terms of faster growing, recurring revenue streams, which includes the development of our open access journals and books publishing program. Another focus point for 2019 will be further execution of the profit improvement plan which was launched in 2018 and will lead to structural cost savings in the areas of personnel costs and operating expenses. Together with the fact that most of the extra costs for the development of our new platform will not re-occur in 2019 and increased sales efforts in the Americas and Asia, we are cautiously optimistic about 2019.

Human Resources

Organization

Brill is a centrally managed company with several corporate and delegated functions. The two statutory directors together form the Management Board, responsible for Corporate and Governance affairs. Day-to-day management of Brill is entrusted to an Executive Committee consisting of the two statutory directors in their roles of CEO and CFO/COO and the CPO. The Executive Committee meets every two weeks. The primary business activities rest with the publishing units, which focus on the key subject areas in which Brill operates. The acquisition editors within the publishing units are responsible for publication development and contact with editors and authors. They are supported by four departments: Sales, Marketing, Finance & Operations and HR. The Heads of these departments together with the members of the Executive Committee form the extended Management Team which meets once a month. Our local legal entities in Boston, Singapore and Paderborn are managed by local statutory directors, who meet monthly with the Executive Committee in a video conference.
The key internal factor determining the success of the company is its personnel. It is therefore important to recruit and retain skilled and motivated professionals. Brill's policy, which is aimed at controlling the costs of personnel, optimizing work processes, providing clear job definition and offering professional development, is closely monitored by the Executive Committee and the Supervisory Board, and measures are taken when necessary.

Key Figures Human Resources

The workforce amounted to 167.0 FTEs (2017: 164.9 FTEs) at year end. Average FTE was 166.7 versus 160.5 in 2017.

FTEs	Year end 2018	Year end 2017
Publishing Activities	66.2 [39.6%]	65.9 [40.0%]
Operations *	47.7 [28.6%]	48.8 [29.6%]
Sales & Marketing	38.0 [22.7%]	35.8 [21.7%]
Other **	15.1 [9.1%]	14.4 [8.7%]
Total	167.0 [100%]	164.9 [100%]

* Departments for desk editing, bibliographic support, electronic publishing technology, data management, production management, distribution and IT.
** General Management and the departments of Finance & Control, Legal, and Human Resources.

The split of FTE by country was as follows:

FTEs	Year end 2018	Year end 2017
The Netherlands	112.3	112.4
United States	21.3	19.8
Germany	24.7	23.9
Asia	5.8	5.8
Other	3.0	3.0
Total	167.0 [100%]	164.9 [100%]

In terms of the ratio of men to women, the share of women slightly increased in 2018 from 59.8% to 60.0%. The share of part-time workers decreased to 32.8% (2017: 34.6%) of the workforce. Sickness leave showed a change from 3.3% in 2017 to 3.1%.

The age structure of the workforce changed relative to 2017 and was as follows:

AGE	2018	2017
20 - 29 years	9.4%	9.5%
30 - 39 years	25.6%	27.9%
40 - 49 years	29.4%	26.8%
50 - 59 years	25.6%	24.0%
Older than 60 years	10.0%	11.7%

The average age remained unchanged in the year under review at 45.1 years at the end of 2018 (2017: 45.1). The outflow of FTE in 2018 was 12.8%, whereas the inflow was 14.1%:

FTEs outflow	2018	2017
Retirement	2.5	1.0
Brill initiative		
Temporary contracts	7.8	6.6
Other	3.0	2.6
Own initiative		
Employment 0-2 years	3.9	2.0
Employment 2-5 years	2.7	0.9
Employment 5-10 years		2.9
Employment 10-15 years	0.8	0.0
Employment 15-20 years	0.7	
Total FTE outflow	21.3	16.0
Total outflow in %	12.8%	12.0%

FTEs inflow	2018	2017
Acquisitions / divestment	1.8	20.7
Temporary position		3.0
Permanent contracts	1.8	17.7
Other		
Temporary contracts	15.3	12.2
Permanent contracts	6.3	12.0
Total FTE inflow	23.4	44.9
Total inflow in %	14.1%	27.9%

In 2018 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. In the reporting year, the Brill pension plan was - in close cooperation with the Works Council's Pension Committee - slightly adjusted as a result of the increased pension contributions costs due to which the available pension contribution was no longer sufficient. The pension plan is considered a defined contribution pension plan for accounting and reporting purposes. No additional arrangements have been set up for senior management.

Report by the Works Council

In 2018 no changes in the constitution of the Works Council occurred. The Works Council was in touch with their German counterpart, the Betriebsrat, a few times, through Skype and in person. The council also had some meetings with its Boston liaison. Although officially the council does not represent the colleagues abroad, it values regularly speaking to them, as business in the other offices and in Leiden have a mutual impact. The Works Council's Open Office was re-established offering Brill employees the opportunity to meet with members of the Works Council to express any concerns they may have regarding a secure and safe work place.

Internal cooperation

We said goodbye to departing CEO, Herman Pabbruwe, after many years of good cooperation. For his goodbye present we managed to take a picture with nearly all Works Council members of the past 14 years: 29 people in all, of which 23 are still working for Brill.

Since June our regular monthly meetings have been with the new CEO, Peter Coebergh. As before, these meetings have been pleasant and constructive. The council met the Supervisory Board in two regular meetings, in February and October, all in a spirit of confidence. In addition, informative meetings with members of the Executive Committee (EC) and newly established extended Management Team (MT) took place to discuss ongoing projects and concerns.

Although the year 2018 was one of transition for Brill, there were no requests for advice or concurrence. Our focus and emphasis have been on monitoring execution and implementation of ongoing projects and topics that were often already initialized in the previous year. Among the themes we discussed with management during the year were the project to launch our new online platform Brill.com, the new regulations regarding privacy (GDPR), the new management structure, the intended realignment of the operations departments to take effect early 2019 and, from September onwards, the profit improvement plan. As last year, we were also occupied with many HR themes, such as the implementation of a policy on Structural Working from Home, the new Employee Handbook that was released on BrillNet, the adjustment of Brill's pension plan for year 2018, the adjustment of the sick leave protocol, Brill's (internal) application policy, and upcoming changes regarding the job-grading system. The Works Council met with Brill's Prevention Workers once during the reporting year.

The Works Council looks forward to performing its important role in a positive and constructive way.

Corporate Strategy

Mission

"We operate from a strong belief that the Humanities, Social Sciences and International Law are areas of scholarship vital for addressing today's global challenges. This belief motivates us to offer our authors the best possible service and infrastructure to disseminate their research. In order to advance discovery and learning we are keen to support scholars by providing them with access to the finest research tools and reference works in their fields. The relevance and high quality of the works we publish is key to the sustainability of our business."

This new mission statement will be actively promoted as part of our marketing activities and, together with our updated strategy, will be the basis of future strategic and business decisions.

Strategy

The corporate strategy was updated during 2018 and centers around four goals:

- *Expand market position*
  We build on our leading position as the publisher of choice for many academic researchers in the humanities, social sciences and international law. Additionally, we aim to enter adjacent segments where Brill's key assets (reputation, service, distribution, infrastructure) can be leveraged. These goals could be achieved organically or through acquisition. Adjacent areas which seem likely for development would include those areas where social sciences as well as natural and life sciences have touching points with subjects in which we are traditionally strong such as language, philosophy and ethics, religion and history. Brill actively explores acquisition opportunities based on clear priority setting. Furthermore, we will expand the formats in which we publish and more actively manage and develop our traditional subscription-based business models as well as new open access and evidence-based models.

- *Develop market presence*
  We are investing in our marketing and sales execution capability to be closer to our client and achieve improved market coverage. This entails expanding the sales force, notably in the Asian and US markets but also enhancing our communications to raise awareness of the depth and breadth of our portfolio. Communication and sales efforts will be more concentrated around the signature titles that define Brill's reputation and the themes they cover. Digital marketing and social media are increasingly employed to improve efficiency and effectiveness of our marketing operation. Author services and our new Brill.com platform will be actively marketed as well.

- *Invest in Finance & Operations*
  We continue to invest Brill's digital business capabilities to facilitate value creation. Strategy-driven roadmaps for investment are in place for key business applications, for our content management process and for our online publishing platforms. We aim to be able to produce our content in such a way that it can be published and used in any format, unit or on any device. Product and data distribution will be further improved to shorten our time to market. Findability and (mobile) usability will continue to be improved by our new Brill.com platform and through our collaboration with third party platforms. We support our operations with standard software applications that are widely used in the business and which are provided by reputable partners, such as Klopotek, RSuite, Pubfactory, and Highwire. IT operations are structured to minimize risk and optimize efficiency through a combination of on-premise and cloud models, the balance of which is permanently reassessed.

In 2018 Brill started to reorganize and improve the quality of its finance department in order to comply with increased IFRS rules and other regulations and to improve management information. This process will continue, and various tools have and will be implemented.

- *Publishing Excellence*
  A reputation for publishing excellence is key to the sustainability of our business. Brill's publishing strategy is to continually seek differentiation and competitive advantage by building on key strengths:

  - **Highly relevant content:** We aim to publish relevant research in the humanities, social sciences and international law. The focus is on high-quality studies at a faculty level from both upcoming as well as established authors. We communicate the relevance of our books and journals by highlighting not only the quality but the societal impact of the research we publish.

  - **Strict quality control:** To remain relevant we must maintain and improve the quality of our peer review. This includes guidelines for the selection of editorial board members, training and recognition of peer reviewers and investment in peer review systems (e.g. submission systems, anti-plagiarism software).

  - **Community building:** We work closely and collaboratively with the entire research community: authors, readers, editors, peer reviewers, librarians, institutional partners, funding bodies, societies, and new players like research collaboration platforms.

  - **Top author service:** Brill's editorial department is offering the best possible service to book authors, series and journal editors. Having a stable editorial team with a mix of experienced and new in-house editors is key to offering such a service. Editors must be well-trained and supported through efficient workflows to focus on relationship management and publishing services.

  - **Improved access:** The research we publish only has an impact if it is accessible. Apart from selling our content to specialized libraries around the globe, we believe gold and diamond open access models are the most sustainable way to improve access to the research of our authors.

- *Profit Improvement*
  Brill's Executive Committee believes that in order to be able to execute its strategy and to achieve its strategic objectives we need to structurally reduce our costs and improve our profit. Therefore, a profit improvement plan was launched in Q3 2018, which already started to deliver some savings in Q4, 2018. This plan entails various actions to improve efficiency and financial control, leading to a recurring reduction in costs of 0.7 million as of 2019. We believe that following through on these strategic tenets during the timeline of the plan (2019-2021) will enable us to reach our objective EBITDA margin range of more than 15% and return to a long-term average organic growth of around 2%, with a return on invested capital showing material headroom to our weighted average cost of capital.

Corporate Sustainability

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

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

Develop global scholarly community

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

Brill's sustainability policy also manifests itself in the company's Developing Countries Program. Brill not only actively participates in existing programs, but also takes initiatives that are developed in cooperation with professional publishers and international organizations. Examples in this regard are: Research4Life, INASP, Association of Commonwealth Universities, and Publishers for Development. As part of Research4Life Brill co-founded and launched in 2018 a new program focusing on International Law called: 'Global Online Access to Legal Information' (GOALI). This has been done in close cooperation with academic libraries, such as Yale and Cornell Law School Libraries, the Library of the International Labor Organization (ILO) in Geneva as the lead UN entity, and other academic publishers and key stakeholders.

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

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

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

Corporate responsibility

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

To formalize its commitment to sustainability, Brill joined the UN Global Compact in 2016, subscribing to its Ten Principles of doing Sustainable Business in an increasingly changing global world. It is the world's largest Corporate Sustainability initiative, calling on companies to align their strategies and operations with universal principles of 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, also regarding the digital economy.

Responsibility Statement

The Management Board consisting of the CEO and CFO/COO 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 Management Board is responsible for the preparation of the Director's Report which is included in the Annual Report 2018.

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

As required by the provisions of 1.4.3 of the Corporate Governance Code and section 5.25c par 2c of the Dutch Act on financial supervision, the Management Board confirms that to its knowledge:

(Statement according Corporate Governance Code)

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

(Statement according 5.25c par 2c)

- the 2018 financial statements give a true and fair view of the assets and liabilities, the financial position, and the result of Brill and the companies jointly included in the consolidation; and
- the 2018 Annual Report likewise gives a true and fair view of Brill's position and the position of its affiliated companies on the consolidated statement of financial position date, as well as of the course of events during the financial year under review;
- furthermore, the Annual Report describes the principal risks that Brill faces.

Leiden, April 4, 2019

Peter Coebergh
Chief Executive Officer

Annual Financial Statements

Based on the ongoing appointment by the AGM of PricewaterhouseCoopers Accountants NV (PwC) as the company's independent auditor, the Supervisory Board instructed PwC to audit the financial statements of Koninklijke Brill NV for the 2018 financial year. For the 2018 financial statements an unqualified independent auditor's report was issued. We therefore recommend that shareholders approve these annual financial statements. We propose distributing an ordinary all cash dividend of 0.85 per share certificate for 2018.

Activities

Seven meetings of our Board were held in Leiden and four telephone conferences took place. At all meetings except for one conference call (Chairman absent), the entire Board was present. Until May the Supervisory Board met with the former Managing Director, Herman Pabbruwe. Members of his Management Team joined parts of those meetings. In the February 2018 meeting it was decided, after careful analysis and taking into account external advice, to pay out an extraordinary dividend of 3.00/share and to finance this extraordinary dividend with a loan. The Supervisory Board overviewed the negotiations between the CFO/COO and financial institutions regarding the conditions of the bank loan.

Since the June 2018 Supervisory Board meeting, the Board meets with the newly formed Executive Committee, consisting of the two statutory directors in their capacity of CEO and CFO/COO and the Chief Publishing Officer, Jasmin Lange, who was appointed as per 1 January 2018. The Supervisory Board oversaw the formation of this new Executive Team and offered coaching and guidance to the newly appointed team. It also challenged the Executive Committee on adjustments that were made to the Brill organization.

In addition to the usual detailed quarterly reports, the Supervisory Board received interim reports of certain business areas in preparation for meetings. During the year under review, the Supervisory Board met with the Managing Director and/or the Executive Committee during all seven Supervisory Board meetings 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.
Special attention during the meetings with the Executive Committee was given to the three-year strategic plan, which is updated annually and presented by the Executive Committee. An outline of the new strategic plan 2019-2021 was discussed and approved in the Supervisory Board meeting of 18 October 2018. The building blocks of this newly updated strategic plan have been on the agenda of most of the regular meetings, with special attention to the publishing strategy and priorities and the recent developments in open access publishing.
The Supervisory Board was also extremely attentive to the integration of the recent acquisitions. We were pleased to note that Schöningh & Fink, is now fully integrated within the Brill's financial, publishing and commercial systems and is performing well.

At the beginning of the summer 2018 it became clear that sales were not achieving expectations and some costs were higher than expected. The Supervisory Board followed the impact of the specific measures swiftly taken on the sales side and requested that management develop a profit improvement plan, also designed to regain productivity which had been diluted by acquisitions. The first version of this plan was announced in the August press release. It will start bearing fruit in terms of financial results in 2019 and 2020. The subject of business development opportunities and acquisitions is on the agenda for every meeting and progress reports are discussed as well as thoroughly prepared lists of possible partnerships in various countries. Reports from the external independent auditor are received and discussed on a regular basis. Progress on issues from the management letter issued by the external independent auditor receive special attention. Risk assessment and measures to mitigate risks are always discussed in the context of the annually updated management letter. In the bi-annual meetings with the Works Council, issues such as corporate culture and the tone in the company have been discussed without the presence of the Executive Committee.

During all 2018 Supervisory Board meetings extensive attention was given to the functioning of the finance department. Various measures and changes to the finance organization were proposed by and discussed with the Management board and/or the Executive Committee. The first visible steps were taken to enhance both the level of the finance department as well as the internal control in the company, especially through an upgrade in staffing and by completion of some major IT programs. In the fall just when a significant change in Brill's Finance staff was being implemented, Brill's CFO/COO was diagnosed with a serious illness and was required to temporarily leave the company. The Supervisory Board mobilized to offer assistance and helped put in place a temporary organization. These circumstances led to a postponement of the implementation of the formalization of internal controls, delay in documentation of the performance of these internal controls and delay in the resolvement of significant internal control matters. They also resulted in delays in the financial reporting and the closing of the accounts. However, it is a tribute to the solidity of the company's business, systems and staff that management consistently maintained control of the business, despite this very difficult situation.

In 2018 the Supervisory Board concluded that, at this moment, there is no need to appoint an internal auditor. However, this issue will be reviewed annually.

There were informal consultations between members of the Supervisory Board and the members of the Executive Committee during this year. The Supervisory Board also continued to begin each meeting without the presence of the Executive Committee, with the aim of discussing the functioning of the Supervisory Board, its individual members, and of the Executive Committee and their teams. The Supervisory Board met with a broad selection of staff as they are invited to its meetings to present their strategic plans, major programs or investments. This enables the Board to observe internal relationships as well as the tone in the company and the corporate culture in practice.
A recurring item on our annual corporate calendar is the remuneration of the statutory director(s). Of particular interest was the preparation of a suitable remuneration package for the two new statutory directors. The remuneration package for the two newly appointed statutory directors was approved in the Supervisory Board meeting of 17 May 2018. The objectives in the context of the variable remuneration scheme of the directors were determined and evaluated as well. Where possible, Brill's corporate strategy was anchored in targets, both in the short-term as well as in the long-term variable remuneration. (refer to Remuneration).

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

The evaluation of the Supervisory Board itself took place in 2018, without help from external consultancy, but based on a structured list of questions and assessment which each member had filled out and which was jointly discussed afterwards. The outcome of the evaluation was that the Supervisory Board functions properly.

Finally, the Supervisory Board was pleased to witness that the new Brill.com platform, one of its key points of attention for the last three years, went live at the end of 2018. Brill's ability to deliver successfully this ambitious project of strategic importance is remarkable.

Profile of Board members

The Supervisory Board should be composed in such a way that each member of the Supervisory Board – and the Supervisory Board as a whole – can fulfill its role, which includes overseeing management policies and the general business of the company and its affiliates, as well as adequately advising the Executive Committee. Given the global nature of the company's activities and those of its affiliates, it is imperative for all members of the Supervisory 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 Supervisory Board must have financial expertise, meaning that he or she will have acquired relevant knowledge and experience of finance management within listed companies and other larger legal entities.

The Supervisory Board, collectively, serves as audit committee. Also, in 2018 the Supervisory Board decided that separate commissions are not called for. The members of the Supervisory Board need to have sufficient time to perform their duties; in particular this applies to the Chairman of the Supervisory Board, and the Supervisory Board and its chairman met this requirement. The Supervisory Board consists of three persons. The members of the Supervisory Board are independent within the context of the Dutch Corporate Governance Code. We consider the composition of the Supervisory Board balanced with two male members and one female member.

Corporate Governance

The Annual Report describes how the company dealt with the implementation of the Dutch Corporate Governance Code that was in force during 2018. The Supervisory Board annually evaluates its instruments and processes in relation to the Code, and in 2018 maintained the policy to depart from the Code regarding use of certification as a possible method of protection. There were no transactions with conflicting interests relating to the Supervisory Board and the two statutory directors.

Annual General Meeting of shareholders

On May 17, 2018, the Annual General Meeting of shareholders took place at the company's office in Leiden. All resolutions presented were approved, including the proposed ordinary dividend of 1.32 per share certificate and the additional extraordinary dividend of 3.00 per share certificate.

Conclusions

In 2018, Brill welcomed a new Executive Committee to build upon the legacy that Herman Pabbruwe left at his retirement in May 2018. The Supervisory Board is grateful for his many years of service and is happy with the new management structure. Although the financial results in 2018 were not what we hoped for, the Board is confident that the steps taken will lead to improved results in 2019.

The Supervisory Board would like to thank all staff for their contribution in 2018.

Leiden, April 4, 2019

Supervisory Board

Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

SUPERVISORY BOARD

Steven Perrick, 1949, Dutch (male)

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

Catherine Lucet, 1959, French (female)

Member of the Supervisory Board of Koninklijke Brill NV since 2013, current term runs to the AGM in May 2021 (appointed with special support from Works Council Brill)
Managing Director of the Education & Reference Division of Editis
Independent Board member and Chairman of the ESG Committee of Casino (retail)

Robin Hoytema van Konijnenburg, 1957, Dutch (male)

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

Remuneration Policy, Supervisory Board

The remuneration of the chairman and the members of the Supervisory Board is set at a fixed annual amount and does not include variable elements. The members do not receive any performance-related remuneration or shares and do not accrue pension rights with the company. They receive no severance pay when they exit the Board. The remuneration of the Supervisory Board is regularly evaluated, if necessary using the advice of a third party. Remuneration was not adjusted in 2018. Brill established guidelines governing the holding of and transactions in securities, other than those issued by Brill, by Supervisory Board members.

Remuneration Policy, Management Board

The remuneration of the Management Board is determined by the Supervisory Board based on the remuneration policy, in line with the best practice provisions of the Dutch Corporate Governance Code. The policy with respect to the remuneration of the Management Board is designed to enable qualified and expert persons to be attracted and retained. The Supervisory Board, if necessary with the aid of an external expert, conducts regular reviews to establish whether the Management Board's remuneration is in line with the market development. The remuneration for 2018 has a fixed portion and two performance-related variable components of which one is for the current year and the second for a three-year horizon. The company does not grant loans, advances, or guarantees to the Management Board.

As part of its remuneration policy, Brill monitors and reports on the company's pay ratio. This indicator compares the average salary of the Management Board (fixed + variable components) against the average salary of all employees (minus the Management Board). In 2018, the pay ratio was 4.6 (2017: 5.6). Brill deems the height of the pay-out ratio to be appropriate given the size and profile of the company.

A The Supervisory Board sees variable remuneration as a meaningful part of the remuneration package of the Management Board. The targets and performance conditions reflect the drivers for growth and value creation in the short- and long-term. Variable compensation, determined by performance metrics, therefore, is a significant part of total remuneration. The variable component of remuneration related to short-term targets is a maximum of 40%, for the CEO and 35% for the CFO/COO and for the three-year, long-term objective, again a maximum of 40% or 35% respectively, 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 2018 the variable remuneration of the Management Board was dependent on a combination of short-term and long-term performance criteria. Details on the performance criteria and performance assessment regarding 2018 are included in the financial statements, note 21.

D No rights are allocated to the Management Board for the acquisition of options or shares.

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

Because of the applicable performance criteria and the fact that the long-term compensation is based on the performance over a three-year period, the remuneration policy contributes to the long-term objectives of the company. The short-term targets are annually determined by the Supervisory Board and largely reflect the key figures that the company reports about in its annual results. These key figures are important measures of the success of the execution of the company's strategy aimed at long-term value creation. As such, the remuneration is directly linked to performance and the company's long-term growth, value creation, and profitability.

FINANCIAL STATEMENTS FOR THE YEAR 2018

CONSOLIDATED FINANCIAL STATEMENTS 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euro's

	31-12-2018		31-12-2017	
ASSETS				
Non - current assets				
Tangible fixed assets [4]	389		488	
Intangible fixed assets [5]	32,785		31,574	
Financial assets	12		12	
		33,186		32,074
Current assets				
Inventories [7]	3,465		3,236	
Trade and other receivables [8]	9,046		9,154	
Income tax to be received	752		334	
Cash and cash equivalents [9]	2,383		3,787	
Derivative financial instruments [13]	75		346	
		15,721		16,857
Total assets		**48,906**		**48,931**
EQUITY AND LIABILITIES				
Equity attributable to owners of Koninklijke Brill NV				
Share capital [10]	1,125		1,125	
Share premium	343		343	
Retained earnings	19,520		26,160	
Other reserves [10]	-203		-226	
		20,785		27,402
Non-current liabilities				
Interest bearing loans [11]	4,843		0	
Provisions [12b]	45		45	
Deferred tax liabilities [6]	3,093		3,775	
		7,981		3,820
Current liabilities				
Interest bearing loans	1,083		0	
Trade and other payables [12a]	10,245		8,791	
Deferred income	8,402		8,713	
Provisions [12b]	100		100	
Derivative financial instruments [13]	310		105	
		20,141		17,709
Total equity and liabilities		**48,906**		**48,931**

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

In thousands of euro's

	2018	2017
Gross profit		
Revenue [15]	35,951	36,394
Cost of Goods Sold [16]	-11,568	-12,551
	24,383	**23,843**
Expenses [16]		
Selling and distribution expenses	-6,930	-6,476
General and administrative expenses	-15,094	-14,052
Operating profit	**2,360**	**3,315**
Finance income [17]	14	19
Finance expenses [17]	-193	-269
Profit before income tax	**2,180**	**3,066**
Income tax [6]	124	-806
Profit attributable to shareholders of Koninklijke Brill NV	**2,304**	**2,260**
Other comprehensive (expense) income – items that might be reclassified to future profit or loss statements		
Exchange rate differences in translation of foreign operations [10]	-56	-116
Cash flow hedges [10]	106	263
	50	147
Income tax relating to these items	-26	-66
	23	**81**
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV	2,328	2,341
Earnings per share (EPS) [18]		
Basic and diluted earnings per share attributable to shareholders of Koninklijke Brill NV	**1.23**	1.21

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of euro's

	2018		2017	
Cash flow from operating activities				
Profit before income tax	2,180		3,066	
Adjustments for				
Amortization and Depreciation fixed assets	1,074		962	
Amortization Content [5]	3,153		3,461	
Finance income - net	68		222	
Change in operating assets and liabilities				
Change due to implementation of IFRS9 and IFRS15	774			
Change in working capital	-310		554	
Change in provisions	0		0	
Cash generated from operations	6,939		8,293	
Interest paid/received	-112			
Income tax paid	-682		-1,222	
Net cash flow from operating activities		6,145		7,043
Cash flows from investing activities				
Investment in tangible fixed assets [4]	-75		-359	
Investment in intangible fixed assets (non-content) [5]	-1,575		-1,671	
Investment in Content	-3,618		-3,090	
Payments for acquisitions, net of cash acquired [3]	-100		-1,866	
Payments for acquisitions relating to other periods [8]	-11		-100	
Net cash flow from investing activities		-5,379		-7,086
Cash flow from financing activities				
Dividend paid to company shareholders [19]	-8,097		-2,474	
Interest bearing loans [11]	6,468		0	
Redemption Interest bearing loans [11]	-542		0	
Net cash flow from financing activities		-2,171		-2,474
Net cash flow		-1,404		-2,517
Cash and cash equivalents as per January 1st		3,787		6,304
Net cash flow		-1.404		-2,517
Cash and cash equivalents as per December 31st [9]		2.383		3,787

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

In thousands of euro's for the year ended
31 December

	Share capital	Share premium	Retained earnings	Currency Translation Reserve [10]	Currency Hedge Reserve [10]	Total equity
Balance as per January 1, 2017	1,125	343	26,374	-247	-161	27,534
Total comprehensive income for the period						
Profit for the year	0	0	2,260	0	0	2,260
Other comprehensive income	0	0	0	-116	197	81
Total comprehensive income for the period	0	0	2,260	-116	197	2,341
Total contributions by and distribution to owners						
Dividends paid over prior year	0	0	-2,474	0	0	-2.474
Total contributions by and distribution to owners	0	0	0	0	0	-2,474
Balance as per December 31, 2017	1,125	343	26,160	-263	36	27,402
Changes in accounting policies [2.4]	0	0	-765	0	0	-765
Balance as per January 1, 2018	1,125	343	25,395	-263	36	26,636
Total comprehensive income for the period						
Profit for the year	0	0	2,304	0	0	2,304
Other comprehensive income	0	0	0	-138	79	-59
Total comprehensive income for the period	0	0	2,304	-138	79	2,245
Total contributions by and distribution to owners						
Dividends paid over prior year	0	0	-8,097	0	0	-8,097
Total contributions by and distribution to owners	0	0	-8,097	0	0	-2,474
Balance as per December 31, 2018	1,125	343	19,602	-401	116	20,785

GENERAL INFORMATION

1. Reporting entity

Koninklijke Brill nv (together with its subsidiaries referred to as 'Brill' or the 'Group') 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. The main activities are academic publications with focus on the Humanities and Social Sciences, International Law and selected areas in the Sciences.
These financial statements were authorized for issue by decision made on April 4, 2019, by Brill's Supervisory Board and Management Board.

2. Basis of preparation of the Financial Statements

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 consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

2.1 Basis of consolidation

The consolidated financial statements contain the financial statements of Brill and its subsidiaries per December 31, 2018. 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 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 the Management Board to exercise its judgement in the process of applying the company's and the group's accounting policies. The areas involving more judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in paragraph 2.6.

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

2.2 Business combinations

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

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

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

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 as a liability at fair value at the acquisition date.

2.3 Basis of measurement and currencies used

Brill's consolidated financial statements have been prepared based on historic cost, 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 2018

On 1 January 2018 Brill adopted several new accounting policies to comply with amendments to IFRS. The accounting pronouncements, on adoption, are:

· IFRS 2 Classification and measurements of share-based payment transactions - this type of transaction is not used at Brill so the impact is nil.
· IAS40 Transfer of investment property - Brill does not have investment properties so impact is nil.
· IFRIC22 Foreign currency transactions and advance considerations – as expected the impact is limited because the Group does a very limited number of transactions that include the receipt or payment of advance consideration in a foreign currency.

Certain options for the transition to IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are available. The Group has chosen to apply these standards at January 1, 2018 without restatement of comparing amounts of 2017. The cumulative effects of the transition to IFRS 15 are retrospectively applied at January 1, 2018 and adjusted in the opening balance of Equity.

The table below shows the changes for the relevant consolidated statement of financial position items

		31-12-2017	IFRS 9	IFRS 15	1-1-2018
Non-current assets		32,074	0	0	32,074
Current assets					
Trade and other receivables	(a) (b)	9,154	-9	549	9,694
Derivative financial instruments		346	0	0	346
Other current assets		7,357	0	0	7,357
Total assets		**48,931**	**-9**	**549**	**49,471**
Equity		27,402	-9	-765	26,628
Non-current liabilities		3,820	0	0	3,820
Current liabilities					
Trade and other payables	(b)	8,787	0	1,314	10,101
Deferred income		8,713	0	0	8,713
Derivative financial instruments		105	0	0	105
Other current liabilities		104	0	0	104
Equity and total liabilities		**48,931**	**-9**	**549**	**49,471**

(a) IFRS 9 Financial instruments:
IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. This new standard replaces the guidance provided in IAS 39 ‘Financial Instruments: Recognition and Measurement’. The effects of the implementation of IFRS 9 'Financial Instruments' are limited. IFRS 9 continues the basics of the hedge accounting model and includes additional reliefs resulting in more hedge relations that qualify for hedge accounting. Disclosure requirements for financial instruments are also updated and applicable at January 1, 2018 (IFRS 7 ‘Financial Instruments: Disclosure’). The disclosure enhancements relates to credit risk and hedge accounting.

Classification and measurement
Financial assets that are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest, like trade and other receivables are continued to measure at amortized cost. Measurement of derivative financial instruments is unchanged at fair value through profit or loss.

Item in Statement of Financial Position	IFRS 9 1 January 2018 Carrying amounts	IFRS 9 Classification	IAS 39 31 December 2017 Carrying amounts	IAS 39 Classification
Assets	Carrying amount		Carrying amount	
Non-current financial assets	12	Amortized costs	12	Loans and receivables
Trade receivables	7,452	Amortized costs	7,461	Loans and receivables
Derivative financial instruments	346	Fair value through consolidated statement of profit or loss and other comprehensive income	346	Fair value through consolidated statement of profit or loss and other comprehensive income
Cash and cash equivalents	3,787	Amortized costs	3,787	Loans and receivables
Liabilities				
Trade creditors	3,569	Other financial liabilities (amortized costs)	3,569	Other financial liabilities (amortized costs)
Derivative financial instruments	105	Fair value through consolidated statement of profit or loss and other comprehensive income	105	Fair value through consolidated statement of profit or loss and other comprehensive income

Impairment
IFRS 9 requires to record expected credit losses on trade receivables instead of the incurred credit loss method applied in 2017. The credit loss allowance is based on the lifetime expected losses on all trade receivables (or simplified approach), see note 2.12 and 8.

Hedge accounting
The existing hedge relationships that were designated in effective hedging relationships before implementation of IFRS 9 continue to qualify for hedge accounting under IFRS 9, as IFRS 9 does not change the general principles of how an entity reports effective hedge relations in its financial statements. The disclosures for hedging are included according to the new requirements of IFRS 7 'Financial Instruments: Disclosures'.

(b) IFRS 15 Revenue from contracts with customers
The recognition of revenue has not changed based on the transfer of control of performance obligations (services the Group has agreed to provide to its customers) and the transfer of risks and rewards according to IAS 18 'Revenue'.

IFRS 15 includes specific requirements to recognize a return liability when customers have the right to return a product. The refund liability is measured at the amount of considerations received for which the Group does not expect to be entitled. This effect reduces the transaction price of the books sold and the revenue recognized. Expected books returned represent a value, for which the cost of goods sold is reduced and for this amount an asset is recognized. For the expected returns up to January 1, 2018, 1,314 thousand for the refund liability is included in the statement of financial position, 284 thousand for the right to recover books, resulting in an equity effect of 765 thousand and a tax receivable of 265 thousand. No other changes related to IFRS 15 are included in the consolidated statement of financial position as per January 1, 2018. The accounting policies of IFRS 15 are included in note 2.18 'Revenue recognition'.

In case Brill would still apply IAS 18 'Revenue' the revenue in the Consolidated statement of profit or loss and other comprehensive income in 2018 would be 5 thousand lower due to change in the refund liability (included in the trade and other liabilities) and 12 thousand higher expenses due to the decrease of the return asset (included in the trade and other receivables). This result in result before tax of 17 thousand higher.

Although the presentation and disclosure requirements in IFRS 15 are more detailed the impact of these disclosures requirements is limited. The Group included in 2017 already an extensive disaggregation of revenue. The contract balances resulting from contracts with customers are limited and no limited additional disclosures are required for these balances

The earnings per share in 2018 are 0.88 based on IFRS 15, and the earnings per share would have been the same if IAS 18 'Revenue' would have been applied in 2018.

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 January 1, 2019. Except when noted otherwise the company does not expect the impact of these policies to be material. Brill intends to adopt each standard as of its mandatory effective date.

- IAS 28 Investment in associates and joint ventures - effective for periods beginning on or after January 1, 2019
- IFRIC 23 Uncertainty over income tax treatments - effective for periods beginning on or after January 1, 2019

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (assets with a value of $ 5,000 or less when new, e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Transition to IFRS 16
The Group plans to adopt IFRS 16 using the 'modified retrospective approach'. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4, for example the lease agreements for our offices and for lease cars provided to personnel. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemption proposed by the standard on lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered to be low value.
The Group will not elect to use the exemption proposed by the standard on short-term leases (i.e. leases with a lease term of 12 months or less).

Impact analysis IFRS 16
During 2018, the Group has performed a detailed impact assessment of IFRS 16. The weighted average incremental borrowing rate at the date of initial application is 3.4%. This rate is based on risk free rates plus relevant risk premiums and a different borrowing rate is applied to different leases in different jurisdictions.

In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at January 1, 2019:

	In thousands of euro's
Assets	
Property, plant and equipment (right of use)	2,653
Deferred tax asset	-24
Liabilities	
Lease liabilities	3,046
Trade and other payables	(199)
Net impact on equity	(218)

Change in Trade and other payables relate to the release of lease incentives and corresponding tax position. Due to the adoption of IFRS 16, the Group's EBITDA in 2019 is expected to improve by the amount of around 754 thousand, while its amortization and interest expense will increase in 2019 with 622 thousand respective 93 thousand. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

2.6 Significant accounting estimates, judgments and assumptions

Business combination
Publishing rights, trade names and goodwill are recognized at historic cost from an acquisitions' purchase price allocation. Establishing fair value of these and other assets involves significant management estimates

and judgments regarding the valuation method applied, remaining useful life of intangible assets, cash flow estimates and an estimated discount rate.

For the purchase price allocation analysis the multiple excess earnings method is used. The historic sales pattern is used to forecast revenues of the titles in place at the date of acquisition for a period of ten years. Commensurate portions of forecasted operating costs were allocated to establish full profitability. The discount rate used was the rate used by Brill at the corporate level at the end of 2017 (9.26% after tax). The resulting valuations were tested for plausibility in a weighted average rate of return analysis.

Impairment testing

Where assets have indefinite lifetimes, they are tested for impairment annually. This requires an estimation of the business value of the cash generating units to which publishing rights and goodwill have been allocated. The procedure entails preparation of a cash flow forecast for each cash generating unit, determining a discount rate and calculating the discounted value of the estimated cash flows.

In the acquisition of mentis Verlag in 2018, a purchase price allocation was prepared, involving significant, experience-based management judgments regarding the allocation of the excess over fair value towards goodwill and intangible assets.

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

Amortization of intangible assets

Prior to capitalization of other intangible assets, Brill prepares an estimate of the expected economic benefits of these assets. The amortization pattern of capitalized content is based on this expected pattern of consumption of the expected future economic benefits embodied in the asset. Inherent to this policy the actual consumption of the economic benefits in the year can differ from the expected consumption. In the financial year the consumption as resulted in revenue is in line with the expected consumption. The largest asset class outside acquired intangibles is investments in content. See note 2.9 'Intangible fixed assets' for this accounting policy.

Calculation of loss allowance

When measuring expected credit loss the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and the amounts received from trade debtors including securities. See note 2.12, 8 and 14 for more information for assumptions of the calculation of the loss allowance

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 consolidated statement of profit or loss and other comprehensive income. Non-financial items in foreign currency valued at historic cost 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 consolidated statement of profit or loss and other comprehensive income 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 Consolidated statement of profit or loss and other comprehensive income.

2.8 Tangible fixed assets

Tangible fixed assets are recorded at historic cost, 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 Consolidated statement of financial position 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 Consolidated statement of financial position, is recognized in the Consolidated statement of profit or loss and other comprehensive income at the moment of derecognition.

2.9 Intangible fixed assets

Intangible fixed assets are recognized at cost less accumulated amortization.

Acquired goodwill and publishing rights are allocated to Brill's Segments in accordance with their match to the respective publishing programs. We consider our Segments to be our lowest possible reportable level of cash generating units, since they form the principal managerial units within Brill, matching the key market segments in which Brill is active. Each Segment has separate management and is managed as a strategic business unit. The publishing programs contained within these segments have been selected for their potential to mutually reinforce each other's development. In 2018, we carved out LLA (Languages and linguistics, literature and culture studies, and Asian studies) from the publishing unit MIA (Middle East, Islamic and African studies). LLA is a new unit under separate management focusing on several growth areas which are key to Brill. See note 15 segment information.

Publishing rights

Publishing rights resulting from business combinations are capitalized at the historic cost. 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. Therefore Brill in general does not amortize publishing rights.

However, in some cases we determine, in the purchase price allocation process, that the publishing list requires significant continued development investment and that the titles purchased have a limited foreseeable economic useful life. In these cases, we will proceed to linearly amortize publishing rights in line with their estimated economic useful life.

Goodwill

Goodwill resulting from business combinations are capitalized at the historic cost. Brill 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 acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. If the business is acquired in stages, the fair value of the existing equity interest in the acquiree is also included in the determination of goodwill. Costs related to acquisitions which the group incurs in a business combination, are expensed as incurred. Any contingent consideration payable (such as earn-out arrangements) is recognized at fair value at the acquisition date and subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

Goodwill acquired in a business combination is not amortized. Instead, the goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is allocated to cash-generating units for impairment testing purposes. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. See 2.10.

Capitalized Content and Content WIP (Work in Progress)
Content costs of internally developed publications are recognized as intangible fixed assets. These assets are valued at production cost.
Content is presented as WIP until publication date and then transferred to content, after which amortization starts. The amortization pattern of capitalized content is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset; this pattern is based on historical data and updated in case significant differences arise. Amortization is recognized under Cost of Goods Sold.

Other intangibles
The amortization of trademarks, imprints, information systems and licenses is linear, based on the estimated useful life of the asset. If the recoverable amount of the asset is lower than book value, additional impairments are recorded. The assets' useful lives are reviewed annually and revised if required.

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

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 Consolidated statement of profit or loss and other comprehensive income. After such reversal, any applicable depreciation or amortization charges are adjusted to reflect the revised book value of the asset in order to properly allocate its adjusted book value to the future periods.

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

The cost related to specific product formats (mostly printing and binding) are divided by the number of units produced and form the unit cost which is recorded in the Consolidated statement of financial position 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 subsequently measured at amortized cost using the effective interest method, less loss allowance. Trade and other receivables are financial instruments classified as measured at amortized cost.

The group measures the expected credit losses allowance for its trade receivables for the whole lifetime of the receivables (simplified approach). To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics, in case these differences are substantial, the days past due and security when applicable. The Group has no unbilled revenue or contract assets to include in the assessment. The expected loss rates are based on the historical payment profiles of sales of the last five years and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information when these would affect the ability of the customers to settle the receivables. Management assesses forward looking information in relation to the specific market in which it operates. Bad debts are written off entirely once the inability to collect has been established with certainty. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure to make the contractual payments for a period longer than the local applicable payment term or a trade debtor has financial difficulties or is unable to engage in a repayment plan with the group.

Until December 31, 2017 the Group applied the incurred credit loss method to determine its credit loss allowance, the comparable amount is based on this method. A loss allowance for individual positions was recorded only if objective evidence suggested that the Group may be unable to collect the complete receivable position. Uncollectable receivables are written off entirely once the inability to collect has been established with certainty.

The Group does not address forward looking aspects because we have not yet included these in the calculation, see above.

2.13 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position (and the Consolidated statement of cash flows) consists of bank, cash and short-term deposits with a duration of three months or less. Cash and cash equivalents are financial instruments classified as measured at amortized cost.

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 Consolidated statement of profit or loss and other comprehensive income over the period of the loan, using the effective interest method. The effective interest is presented as interest expenses.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Group presents interest bearing debt as current liability in case the repayment occurs within twelve months after the reporting period or when a debt is payable on demand.

Prepaid transaction costs are netted with corresponding loan. Transaction costs are linear expensed over the term of the loan.
Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates

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 Consolidated statement of profit or loss and other comprehensive income, after deduction of any reimbursements to be received. If the impact of the time value of money is material, provisions are recorded at discounted value.

2.16 Pensions and other post – employment arrangements

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

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 Consolidated statement of profit or loss and other comprehensive income during the lease period.

2.18 Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for transferring for sales of books, journals and database access to its customers, the Group's performance obligations. The performance obligations have fixed considerations and for books a variable consideration is included for the refunds rights. The Group recognizes revenue when it transfers control of a product or service (or performance obligation) to a customer. For printed books this is after shipping and handling activities. Sales of books are invoiced at shipping and journals and database access are paid in advance. All contract conditions are fulfilled at transfer of control. In case incremental costs occur to obtain contracts with customers, the contract duration is usually one year or less, these costs are expensed when incurred. Due to the short contract term, no remaining performance obligations after year end are disclosed.

(*a*) *Sales of books*

Sales of books are one-time sales and are recognized after physical delivery or after making the product accessible to the customer online. These sales are performance obligation satisfied at a point in time. The sales are made by retail outlet or via the internet.

(*b*) *Sales of journals*

Journals are transferred at a fixed frequency to the customers during the lifetime of the subscription period. The journals are made available in printed or digital form. Journals are performance obligations that are satisfied at a point in time. The advances received for journals subscription are initially recorded as deferred income (contract liabilities), revenue is recognized when (the control of) the journal is transferred to the customer.

(*c*) *Database access revenue*
Database access or primary sources revenue is recognized over the period of the subscription contracts. Database access is a performance obligation that is satisfied over time. The progress of time of the access period is relevant in the transfer of the services, the revenue is linear recognized during the subscription period (transfer of control). The advances received for database access are initially recorded as deferred income and defined as contract liabilities.

(*d*) *Principal versus agent considerations*
The Group has a few contacts with business partners to provide sales, marketing and fulfilment services for the publication made and owned by these partners. The Group does not own the rights or the inventory of these publications. The Group does not control the goods before they are transferred to customers, and hence, is an agent in these contracts. The Group recognized only the agent fee as revenue (as a performance obligation satisfied over time).

(*e*) *Subscription payments – deferred income*
Advances for subscription payments are received and result in the obligation of the Group to transfer books or digital content to its customers. These liabilities are part of the contracts with customers and classify as contract liabilities and presented as deferred income. Subscriptions are prepaid for one year or less and do not result in significant finance components.

(f) *Right to return*
For sales of books the customers have a right to return for which a refund liability is recognized and measured at the net amount of revenue in the statement of financial position within Trade and other payables. This liability to the customer relates only to the consideration of the contract and not to future performance obligations of the Group. The Group also recognizes an asset for the right to recover the books sold as part of its other receivables and accruals. The return rates are based on the returns of the last year.

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

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

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

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

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

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

2.22 Subsidies

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

2.23 Taxation

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

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

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

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

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

2.24 Financial instruments and hedging

Brill uses financial derivative instruments such as futures and foreign currency options to manage risks related to foreign currencies and interest. Financial derivatives instruments are classified as financial instruments with fair value through profit or loss and are recognized at trade date. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives to cash flow hedges based on a particular risk associated with the cash flows of highly probable forecast transactions.

At inception of the hedge relationship, the Group documents the economic relationship between the derivatives (hedging instruments) and forecast transaction (hedged item) including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. The fair values of derivative financial instruments designated in hedge relationships and movements in the hedge reserve are disclosed in note 13. The Group enters into derivatives with a duration of one year or less that are presented as current assets or current liabilities. Derivatives with a positive value are presented as assets and negative values are presented a liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within Finance costs.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

3. Business combinations, acquisitions and divestments of publishing rights

In November 2017, Brill acquired the business activities of mentis Verlag, in Germany effective 1 January 2018. Mentis is a small, reputable publisher specialized in philosophy. Brill acquired current assets and liabilities, publication rights, trade marks and contracts with business partners. The purchase price is 200 thousand paid at the time of the transaction, plus 32 thousand deferred / contingent consideration that depends on mentis revenue for 2018 (15 thousand) and 2019 (17 thousand).

The purchase price allocation of mentis Verlag has been finalized in 2018. The below table summarizes the final purchase price allocations of the business combination.

	Carrying amount mentis	Fair value adjustments mentis	2018 Recognized values mentis
Consideration paid	200		200
Deferred / contingent consideration:			
Non-Current	17		17
Current	15		15
Cash & cash equivalents, financial fixed assets			
Total Consideration	**232**		**232**
Intangible assets [note 5]		23	23
Other non- current assets			
Inventories and Work in Progress	32		32
Receivables	18		18
Deferred tax assets		-7	-7
Other current assets			
Payables and other current liabilities			
Provisions			
Fair value of net identifiable assets	**50**	**16**	**66**
Excess consideration over fair value	182	-182	0
Goodwill [note 5]		166	166
Total	**232**	0	**232**

The acquisition of 100% of the voting shares of Sense Publishers BV was effective 1 July 2017. Sense is a specialist publisher in the field of educational sciences, an important field within the social sciences. In the 2017 Annual Report, the purchase price allocation for Sense was prepared provisionally. The PPA was finalized in 2018, differences versus the provisional PPA are summarized as follows (also see note 5):

(in thousands of euro's)	Carrying value	Fair Value Adjustments	Recognized in FS2017	Final PPA FS 2018	Delta
Goodwill		978	978	1,234	256
Publishing rights		252	252	239	-13
Brands and trademarks		207	207	36	-171
Net Working Capital	133		133	133	0
Deferred tax liability				-60	-60
Purchase Price, net of cash	133	1,437	1,570	1,581	11

Cash payments related to business combinations were as follows:

Cash payments related to acquisitions	**2018**	2017
Amounts paid or to be paid	232	2,905
Paid in Prior year	100	-890
Cash and cash equivalents included in target	0	-2
Payments related to acquisitions prior years	11	19
Deferred portion of acquisition payments	-32	-66
Net cash payments related to acquisitions	**111**	**1,966**
Payments related to acquisition next year	0	-100
Net cash payments related to acquisitions in period	**111**	**1,866**

4. Tangible fixed assets

2018	Leasehold improvements	Furniture & Fixtures	IT Hardware	Total
Book value as per January 1, 2018	193	97	196	486
Investment	0	42	33	75
Depreciation	-41	--28	-105	-174
Exchange rate differences	0	1	1	2
Book value as per December 31, 2018	**152**	**112**	**125**	**389**
January 1, 2018				
Cost	842	3.201	513	4,556
Accumulated depreciation	-649	-3.104	-317	-4,070
Net book amount	**193**	**97**	**196**	**486**
December 31, 2018				
Cost	842	3.243	546	4,631
Accumulated depreciation	-690	-3.131	-421	-4,242
Net book amount	**152**	**112**	**125**	**389**

2017	Leasehold improvements	Furniture & Fixtures	IT-hardware	Total
Book value as per January 1, 2017	49	63	190	302
Acquisitions	0	31	0	31
Investment	169	33	157	359
Depreciation	-25	-29	-147	-201
Exchange rate differences	0	-2	-4	-6
Book value as per December 31, 2017	**193**	**97**	**196**	**486**
January 1, 2017				
Cost	673	3.137	355	4,165
Accumulated depreciation	-624	-3.073	-166	-3,863
Net book amount	**49**	**64**	**189**	**302**
December 31, 2017				
Cost	842	3.201	513	4,556
Accumulated depreciation	-649	-3.104	-317	-4,070
Net book amount	**193**	**97**	**196**	**486**

Estimated useful life of fixed assets is as follows:

- Leasehold improvements 10 years,
- Furniture & Fixtures between 5 and 10 years.
- IT-hardware 3 years

The depreciation is part of the general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income (refer note 16).

5. Intangible fixed assets

2018	Publishing rights	Trade names and imprints	Licenses	Goodwill	Content WIP	Capitalized Content	Information Systems	Total
Book value as per December 31, 2017	15,591	88	244	3,224	2,020	7,743	2,735	31,646
Acquisition	273	6		166				445
Investment					3,618		1,130	4,748
Transfer					-3,383	3,383		0
Amortization	-87	-10	-27			-3,153	-777	-4,054
Book value as per December 31, 2018	15,778	84	217	3,389	2,255	7,973	3,089	32,785
January 1, 2018								
Cost	15,634	127	271	3,224	2,020	37,078	11,135	69,489
Accumulated amortization	-43	-39	-27	0	0	-29,335	-8,399	-37,843
Net book amount	15,591	88	244	3,224	2,020	7,743	2,735	31,646
December 31, 2018								
Cost	15,907	133	271	3,389	2,255	40,461	12,265	74,682
Accumulated amortization	-130	-49	-54	0	0	-32,488	-9,176	-41,897
Net book amount	15,778	84	217	3,389	2,255	7,973	3,089	32,785

*see note 3

2017	Publishing rights	Trade names and imprints	Licenses	Goodwill	Content WIP	Capitalized Content	Information Systems	Total
Book value as per January 1, 2017	15,189	0	0	1,879	1,945	8,189	1,984	29,186
Acquisition	458	298	0	1,088	0	0	0	1,845
Investment	0	0	271	0	3,082	7	1,399	4,760
Transfer					-3,007	3,007		0
Amortization	-43	-39	-27	0	0	-3,461	-648	-4,217
Book value as per December 31, 2017	**15,604**	**259**	**244**	**2,968**	**2,020**	7,743	**2,735**	**31,574**
Final PPA Sense adjustments [3]	-13	-171		256				72
Adjusted book value as per December 31, 2017	**15,591**	88	**244**	**3,224**	**2,020**	**7,743**	**2,735**	**31,646**
January 1, 2017								
Cost	15,189	0	0	1,879	1,945	34,063	9,736	62,812
Accumulated amortization	0	0	0	0	0	-25,874	-7,752	-33,626
Net book amount	**15,189**	0	0	**1,879**	**1,945**	8,189	**1,984**	**29,186**
December 31, 2017								
Cost	15,647	298	271	2,968	2,020	37,078	11,135	69,417
Accumulated amortization	-43	-39	-27	0	0	-29,335	-8,399	-37,843
Final PPA Sense adjustments [3]	-13	-171		256				72
Net book amount	**15,591**	88	**244**	**3,224**	**2,020**	**7,743**	**2,735**	**31,646**

As part of the acquisition accounting process, Management separately identified and estimated the fair value of each asset described above. The assets that were valued in the purchase price allocation were appraised using the multiple excess earning method which involves significant estimates and judgments as disclosed in note 2.6. The assets have an estimated remaining useful life of 5 years and will be amortized accordingly. The goodwill included in these transactions reflect the global (digital) distribution and product development opportunities that can be derived from the acquired businesses. In the case of mentis, amortization on the intangible assets is tax-deductible.

The intangible assets include publishing rights, goodwill and trade names that are part of the acquisitions of mentis and Sense (see note 3). In addition, Brill acquired the rights to certain publications, structured as purchases of intangible assets. These include Global Governance and the books from DEO publishing, for a total consideration of 274 thousand. These titles acquired enhance our journal portfolio and book portfolio. The acquisition of these businesses results from Brill's strategy to expand its market position within selected niches.

Capitalized content cost typically consists of costs for typesetting, illustrations, editing, translations and all other cost that relate to preparing content for publication. Content is presented as WIP until publication date and then transferred to content, after which amortization starts (refer note 2.9, Content and Content WIP).

Publishing rights, brands and goodwill are related to business combinations and acquisitions of publishing rights. As per December 31, 2018, net book value was 19.4 million (2017: 18.8 million). Intangible assets with a definite useful life are amortized in line with their expected useful life, if applicable. In 2018, an amount of 97 thousand was recognized in the consolidated statement of profit or loss and other comprehensive income for amortization of acquired intangible assets (2017: 82 thousand). At the end of each reporting period, Brill reviews any indication whether the CGU's (segments) that contain goodwill and intangible assets may be impaired. In addition, Brill carries out annual impairment tests by comparing the carrying amount of the CGU's to the recoverable amount.

The recoverable amount is determined by calculation of the CGU's value-in-use. The value-in-use is determined by discounting the CGU's future cash flows. The cash flow projections are based on actual operating results, and the budget and strategic plans in force at the time of making the analysis. Furthermore, the three-year projections in the strategic plans are extended to 10 years. The Executive Committee 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 9.8% (2017: 12.1%) 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	**2018**		2017
Risk free interest rate (in %)	0.68		0.94
Market debt premium (in %)	1.86		1.20
Market risk premium (in %)	5.50		6.50
Small Firm Premium (in %)	3.67		3.00
Leveraged Beta	0.70		1.00

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 scholarly research whereas cost estimates assume a shift from variable expense to fixed expense, increasing slower than revenue. The annual impairment test showed that the recoverable amount for all segments for intangible assets and goodwill exceeded their carrying amounts.
We also made an assessment whether a reasonably possible change in a key assumption would cause the carrying amount to exceed the recoverable amount.

	Applied terminal growth rate of cash flows (*g*)	Increase in discount rate which would trigger an impairment
ARC	0.5%	>5%
HIS	0.5%	>5%
LAW	0.5%	>3%
MIA	0.5%	>3%
LLA	0.5%	>1%
S&F	0.5%	>5%

Sensitivity tests applied to the valuations show that the valuations are highly robust against material (negative) variances in the applied terminal growth rate, except for LLA where the assessment shows that there is a risk of impairment if the discount increases more than 1.3%.

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

Segment	**Acquired intangible assets**		**Goodwill**		**Total**	
	2018	2017	2018	2017	2018	2017
LAW	10,645	10,414	788	788	11,433	11,202
MIA	489	3,459	1,576	1,321	2,065	4,780
LLA	2,796	0	0	0	2,796	0
HIS	1,091	829	345	345	1,436	1,174
ARC	946	1,017	405	405	1,351	1,422
S&F	74	143	276	110	350	253
Total	16,041	15,863	3,389	2,968	19,431	18,831

In addition to acquired intangible assets, Brill recognizes investments in information systems and internally developed content (capitalized product development costs). These assets are amortized in line with their expected useful life. In case of content, the estimation of remaining useful life is based on the expected pattern of consumption of the expected future economic benefits embodied in the asset. In most cases, the expected pattern leads to a diminishing balance amortization pattern, which generally covers a period of 10 years. Amortization of content is expensed within the cost of goods sold. In 2018, amortization expenses within cost of goods sold were 3,153 thousand (2017: 3,461 thousand).

The amortization charge is sensitive to changes in the expected consumption pattern. Adjusting the consumption pattern of the capitalized content with minus 5% in the first year would lead to a decrease of 2018 reported amortization of 158 thousand.

Information systems are usually amortized in between 3 and 5 years. In 2018, amortization expenses for Information systems were 777 thousand (2017: 648 thousand). These expenses were recognized in the consolidated statement of profit or loss and other comprehensive income under General and administrative expenses. At year end 2018 Brill had no material outstanding commitments for the purchase or development of intangible assets.

6. Income tax

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

	2018	2017
Income tax on continued operations		
- Current tax	575	754
- Deferred tax	-699	52
Tax recognized in the consolidated statement of profit or loss and other comprehensive income	**-124**	806

Of the total tax charge of 575 thousand, 103 thousand (2017: 119 thousand) is due in other jurisdictions than the Netherlands.

The table below reconciles the effective tax rate and the calculation of tax according to local nominal Dutch tax rates as per December 31, 2018 and 2017.

	2018	2017
Income before tax	2,180	3,066
Statutory Dutch income tax rate	20% - 25.0%	20% - 25.0%
Tax, at the nominal rate	536	754
- Effect of different tax rates outside the Netherlands	16	38
- Permanent differences	6	0
- Release from deferred tax liability	-699	0
- Miscellaneous	17	15
Tax recognized in the consolidated income statement	**-124**	806
Effective tax rate	-5.7%	26.3%

Deferred taxation is itemized as follows:

	Intangible assets	Plant and equipment	Trade & other accrued expenses	Hedge contracts	Total
2018					
Net carrying amount as of 1 January, 2018	-3,794	16	69	-66	-3,775
Acquired through business combinations	-60	0	0	0	-60
Recognized in profit and loss	701	0	-2	0	699
Recognized in other comprehensive income	0	0	0	37	37
Effect of movement in foreign exchange rates	0	3	2	0	5
Net carrying amount as of 31 December, 2018	**-3,153**	**19**	**69**	**-29**	**-3,093**
2017					
Net carrying amount as of 1 January, 2017	-3,825	90	42	0	-3,693
Acquired through business combinations	-54	0	92		38
Recognized in profit and loss	85	-77	-60		-52
Recognized in other comprehensive income	0			-66	-66
Effect of movement in foreign exchange rates	0	3	-5	0	-2
Net carrying amount as of 31 December, 2017	-3,794	16	69	-66	-3,775

The deferred tax amount is for 3,061 thousand non-current and for 32 thousand current (recoverable within 12 months). Taxes due on hedge contracts with negative value are included in the tax accrual.

7. Inventories

Inventories	31-12-2018	31-12-2017
Publications in development	581	291
Finished goods	2,588	2,945
Book return asset	296	0
	3,465	3,236

The inventory of finished goods includes a provision for obsolescence of 3,764 thousand (2017: 2,706 thousand). During the year, the provision was increased by 983 thousand (2017: by 411 thousand). This amount was charged as an expense in the consolidated statement of profit or loss and other comprehensive income.

8. Trade and other receivables

Trade and other receivables	31-12-2018	31-12-2017
Trade receivables	7,557	7,461
Other receivables	1,489	1,693
	9,046	9,154

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. Note 14 contains a risk analysis.

For some trade receivables the group may obtain security in the form of insurance of the receivable for default.

Change in credit loss allowance	2018	2017
December 31	195	201
Change in accounting policy to expected credit loss	9	-
January 1	204	201
Add to the allowance during the year	0	8
Receivables written off during the year as uncollectible	-7	-10
Amounts recovered during the year	0	-4
December 31	197	195

Aging trade receivables	31-12-2018 Gross amount	Credit loss allowance	Loss allowance	31-12-2017 Gross amount
Payment not due	5,100	-3	0% - 0.1%	6,433
Payment due:				
0- 30 days	1,973	-4	0.1%	842
30-60 days	183	0	0.1%	119
60-90 days	90	0	0.1%	43
> 90 days	408	-190	38%	219
Credit loss allowance	-197			-195
Total	7,557	-197		7,461

9. Cash and cash equivalents

Cash and cash equivalents as per ultimo 2018 were 2,383 thousand (ultimo 2017: 3,787 thousand). Included in this amount is 107 thousand restricted cash that serves as a guarantee for the lease contract of the Leiden office. Cash and cash equivalents not required for funding of the operations are invested in short-term bank deposits with variable rate, where possible. Ultimo 2018 and ultimo 2017 there were no short-term bank deposits.

10. Share capital and reserves

The number of ordinary shares with par value of 0.60 per share, issued and paid, was 1,874,444 in 2018 (2017: 1,874,444). The number of authorized shares was 2,500,000 in 2018 (2017: 2,500,000). In 2018, shareholder capital was 1,125 thousand (2017: 1,125 thousand).

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

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

Other reserves	Currency translation reserve	Currency hedge reserve	Total
January 1, 2017	-147	-161	-308
Result revaluation	-116	516	400
Reclassification to profit and loss	0	-253	-253
Recognized in other comprehensive income	-116	263	147
Tax on revaluation result	0	-66	-66
Total mutation	-116	197	81
December 31, 2017	**-263**	**36**	**-227**
Result revaluation	-139	106	-33
Reclassification to profit and loss	0	0	0
Recognized in other comprehensive income	-139	106	-33
Tax on revaluation result	0	-26	-26
Total mutation	-139	79	-59
December 31, 2018	-401	116	-285

11a. Interest bearing loans

In May 2018, Brill entered into a long-term bank loan of 6.5 million, of which at balance date 6.0 million was outstanding. Brill pays a quarterly redemption until the loan is fully paid back mid-2024.

The movement of the interest-bearing loans is as follows:

	2018
January 1	
Loan drawn	6,500
Debt redemption	-542
Transaction costs loan expensed over loan term	-32
December 31	**5,926**
Short-term (< 1 year) reclassed to current liabilities	1,083
Reported as long-term loan	**4,843**

The fair value of the interest-bearing loans is 6.0 million (2017: nil) based on fair value hierarchy two.
On December 31, 2018 unused credit facilities of 15 million were available (2017: 12.5 million). The arrangement provides Brill with a facility of 7.5 million current account facility and an additional 7.5 million of current account facility specifically for the financing of acquisitions. As a security for these bank loans Brill has pledged assets. The pledged assets with a total book value of 29.2 million consist of publishing rights (15.8 million), receivables (9.9 million), inventories (3.2 million) and tangible fixed assets (0.4 million).

The main non-financial covenant is the non-distribution clause that prohibits Brill to distribute to its shareholders more than 100% of the sum of Profit before tax plus amortization and depreciation (non-product).

For 2018 that sum is:

Non distribution covenant	2018
Profit before tax	2,180
Amortization and depreciation (non-product)	1,047
Maximum distribution	3,227

In addition, the covenants include two financial ratios:

Net debt/EBITDA ratio	2018	2017
Cash and cash equivalents	-2,383	-3,787
Interest bearing loans	5,926	0
Net debt	3,544	-3,787
EBITDA (note 23)	3,623	4,157
Net debt/EBITDA ratio (must be less than 3.5)	0.98	-0.91

Debt service coverage ratio	2018
EBITDA (note 23)	3,623
Income tax paid	-682
Replacement investments: tangible assets	-85
Replacement investments: intangible assets (non-product, non-acquisition)	-958
Total	1,898
Interest paid	125
Redemption loan	542
Total	667
Debt service coverage ratio (must be higher than 1.1)	2.8

11b Net debt reconciliation

Net debt reconciliation	31-12-2018	31-12-2017
Cash and cash equivalents	2,383	3,787
Interest bearing loan - short term	-1,083	
Interest bearing loan - long term	-4,843	
Net debt	-3,544	3,787

Net debt movements	Cash and cash equivalents	Interest bearing loan - short term	Interest bearing loan - long term	Total
Net debt January 1, 2017	6,304	0	0	6,304
Cash flows	-2,517	0	0	-2,517
Net debt December 31, 2017	3,787	0	0	3,787
Cash flows	-1,404	-1,083	-4,843	-7,331
Net debt December 31, 2018	2,383	-1,083	-4,843	-3,544

12a Trade creditors and other payables

Trade creditors and other payables	31-12-2018	31-12-2017
Trade creditors	2,820	3,569
Other taxes and social securities	540	496
Refund liability	1,319	0
Accruals	1,791	2,669
Other payables	3,775	2,053
	10,245	8,787

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.
In the year 14 thousand is recognized as revenue related to books sold in previous years.

12b Provisions

Provisions	31-12-2018	31-12-2017
Short-term provisions	100	100
Long-term provisions	45	45
	145	145

The above provisions relate to the 2017 acquisition of Schöningh & Fink, where in the opening balance we recognized certain provisions related to contingent liabilities. A provision is considered short-term when the expectation is that they will be used or released within 12 months.

13. Financial instruments

Hedge accounting
Brill transacts currency forward agreements and other financial instruments exclusively with counterparties with prime credit rating. Credit rating of our counterparties had no material effect on the evaluation of effectiveness of our cash flow hedges.

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.

For currency risk hedging, Brill uses currency forward agreements. The purpose of the cash flow hedge is to shield the probable future sale and purchase of our U.S. dollar cash flows against fluctuations in the exchange rate until the moment of occurrence of the cash flow. The future U.S. 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 Consolidated statement of profit or loss and other comprehensive income under the item net revenue. At maturity, the remainder of the results is recognized as financing results (revaluation of receivables). From testing the forward agreements used for the cash flow hedge, the Group has included the ineffective part in the hedge reserve in equity at the end of the reporting period.

At the end of the reporting period the position of the forward agreements was:

Forward and hedging position 2018	31-12-2018			Changes in fair value for effectiveness measurement		
	Notional amounts (in USD)	Fair value (in) (hierarchy 2)	Contract rate	Hedging instrument	Hedged item	Ineffectiveness 2018
Purchase forwards (current liabilities)	6,750	-310	1.224	-624	782	25
Sell forwards (current assets)	-2,135	75	1.209	135	-223	0
Net	4,615	-235				

Timing differences in the expected U.S. dollar cash flow can be a source of ineffectiveness for these hedges. The notional values of the hedged items are equal to the notional values of the hedging instruments allocated to the cash flow hedges (hedge ratio 1:1).

In 2018, an amount of 25 thousand was recognized in the Consolidated statement of profit or loss and other comprehensive income for non-effectiveness.

The Group expects that the existing cash flow hedge accounting results in an amount of 44 thousand negative in next year (afterwards nil) and a cash flow of 280 thousand (after 2019: nil).

Movement of cash flow hedge reserve for currency hedging	2018
January 1	36
Changes in fair value derivatives	-413
Recycling to Consolidated statement of profit or loss and other comprehensive income – included in General operating expenses	228
Ineffectiveness – included in Finance expenses	25
Taxes	80
December 31	-44

Netting

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 December 31, 2018 and December 31, 2017. The column ‘net amount’ shows the impact on the group’s consolidated statement of financial position if all offsetting rights were exercised.

	Effects of offsetting on consolidated statement of financial position			Related amounts not offset	
December 31, 2018	Gross amount	Offset in the balance sheet*	Net presented in the balance sheet*	Amount subject to master netting arrangements	Net amount
Financial assets					
Derivative financial instruments	75	0	75	-75	0
Total	75	0	75	-75	0
Financial liabilities					
Derivative financial instruments	310	0	310	-75	235
Total	310	0	310	-75	235
December 31, 2017					
Financial Assets					
Derivative financial instruments	346	0	346	-105	241
Total	346	0	346	-105	241
Financial liabilities					
Derivative financial instruments	105	0	105	-105	0
Total	105	0	105	-105	0

* balance sheet = consolidated statement of financial position

Hierarchy in fair value

As per 31 December 2018, Brill held the below financial instruments, valued at fair value, by valuation method:

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

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

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

During the year there have been no movements between Fair Value levels.

Fair value measurement of assets and liabilities	Currency forward agreements 31-12-2018	31-12-2017
Level 1	0	0
Level 2	235	241
Level 3	0	0
Total	**235**	**241**

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 U.S. dollar is the main other currency relevant to Brill's business. In 2018, around 38% (2017: 40%) of invoiced sales originated from the United States. Normally, prices in U.S. dollar are announced at the beginning of the year and are adjusted annually. In determining prices in U.S. dollar, current exchange rate circumstances are considered. Since most expenses are in euro, Brill is net long in U.S. dollar. Brill's policy is to hedge around 90% of the expected net incoming cash flow in U.S. dollar for the next twelve months by using currency forward contracts or currency options. In addition, Brill attempts to limit currency risk by means of natural hedging, meaning entering in liabilities in U.S. dollar to compensate receivables in U.S. dollar. Furthermore, Brill hedges certain ongoing outgoing cash flows in U.S. dollar to limit the impact of currency swings on the cost level. The result is a limited currency risk.

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

Impact of a 5% increase of the U.S. dollar value versus the euro	2018	2017	**Impact of a 5% decrease of the U.S. dollar value versus the euro**	2018	2017
Net revenue	7	131	Net revenue	-1	-119
Gross profit	24	101	Gross profit	-5	-92
Net profit	-9	149	Net profit	81	-135
Equity	110	-517	Equity	631	53

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 U.S. dollar. 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 2018, a long-term loan with variable rate (3 months EURIBOR plus 1.8%) was in place, causing a limited interest rate risk exposure (see note 11). 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. Currently Brill has not entered into interest rate swaps; management is monitoring interest rate expectations with help of external experts.

The below table shows the impact of a change in interest rate on Brill's financial results:

Impact of a 5% increase of 3 months EURIBOR	2018	2017	**Impact of a 5% decrease of 3 months IBOR**	2018	2017
Profit before tax	-56	n.a	Profit before tax	56	n.a

Credit risk

The business of Brill is concentrated in Western Europe, the United States and Asia. Over 80% of Brill's sales are transacted via third parties, such as book distributors and journal subscription agents. Currently, a consolidation is ongoing in the trade market. Although the risk of insolvency of a trade customer is unchanged, this concentration does increase the potential impact of an insolvency. However this process does not result in a significant credit risk for the Group. To control for this risk, Brill has taken out credit risk insurance on part of the credit risk with trade partners. For ongoing sales activity, Brill has access to relevant credit information. In addition, Brill's credit policy includes payment terms, credit limits, dunning policies and using factoring where applicable. Our cash flow is impacted by the payment behavior of our customers; therefore, compliance with payment terms is monitored closely. Our maximum exposure is limited to the book value of non-current financial assets, trade and other receivables (significant limited by the application of credit insurance, see note 8), derivative financial instruments (assets) and cash and cash equivalents in the statement of financial position at year end.

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.

The Group operates in different jurisdictions where different payment terms apply, changes in credit quality is determined according to the different payment terms in these jurisdictions. The Group considers an event of default for internal credit risk management purposes if there is information indicating the debtor is unlikely to pay its liabilities in full or a breach of financial covenants by the debtor.

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 to finance measures that add structural value to the business. The below table shows the maturities of the Companies' financial liabilities.

	Balance amount	Maturity					
		Immediate	< 3 months	3-12 months	1-5 year	> 5 year	Total
As per December 31, 2018							
Trade and other payables	10,245	4,532	2,495	3,218	0	0	10,245
Long-term loan	5,926		271	813	4,336	506	5,926
Currency forward receipts		0	-2,532	-3,361			-5,893
Currency forward payments		0	2,285	3,229	0	0	5,514
		4,532	2,519	3,899	4,336	506	15,793
As per December 31, 2017							
Trade and other payables	8,787	3,000	2,954	2,833	0	0	8,787
Currency forward receipts		0	-2,259	-4,249			-6,508
Currency forward payments		0	2,069	4,198	0	0	6,267
		3,000	2,723	3,065	0	0	8,546

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-erm 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).

Brexit
In order to mitigate any negative effects from the Brexit, Brill has developed various alternatives together with our distribution partner in the UK and our POD provider in the Netherlands. As the outcome of the Brexit process is highly uncertain, solutions based on several possible Brexit scenarios have been developed and prepared.

15. Segment information

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

Brill's publishing activities are segregated into five business segments, identified as Publishing Units. The aggregation of these segments has been made based on management considerations, the nature of subject areas and group of researchers our publications are targeting:

- HIS – History, American studies, Slavic studies, social sciences, and biology
- LAW – International law, human rights, humanitarian law, and international relations
- LLA – Languages and linguistics, literature and culture studies, and Asian studies
- MIA – Middle East, Islamic and African studies, as well as the newly acquired business of Sense (education studies)
- ARC – Philosophy, art, religion and Bible studies, theology, Jewish studies, Ancient Near East, Egyptology, classical antiquity, Geek and Latin literature
- S&F – the business operation contained under Brill Deutschland GmbH, notably the imprints Ferdinand Schöningh, Wilhelm Fink and mentis – future additions in Germany may also be grouped into this unit, which is reported as a separate unit for management purposes

During 2018, a start was made with realigning the publishing units for future growth and profitability. Consequently, MIA was split up managerially into two units, with the new unit LLA focusing on languages, linguistics, literature and cultural studies as well as Asian studies.

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

Publishing Unit	LAW	MIA	LLA	HIS	ARC	**S&F**	**Total**
Revenue 2018	6,230	5,852	3,708	6,740	10,386	3,255	35,951
Revenue 2017	6,655	6,076*	3,850*	6,795	9,894	3,124	36,394
EBITDA 2018 (see note 23)	1,009	-149	247	508	1,821	187	3,623
EBITDA 2017 (see note 23)	1,691	78*	50*	430	1,796	110	4,156
Invested capital 31-12-2018	10,550	1,550	4,034	2,945	3,146	713	17,620
Invested capital 31-12-2017	11,721	3,872*	2,454*	2,498	1,583	805	22,932

* Restated to show the carve out of LLA from MIA per January 1, 2018.

In 2018, the Publishing Units ARC and S&F showed satisfactory results. LAW, MIA and LLA performed below expectation due to following reasons. Backlist sales in all three segments were disappointing, and measures have been taken to improve the marketing of older titles. In addition, LAW had a difficult year due to the publication timing of two high revenue yearbooks. MIA's results suffered from lower outright purchases of two major reference works which our sales team is countering with developing a broader customer base. The acquired Sense program, which is included in the MIA results, had a lower than expected title output due to staffing changes and integration delays.

Reconciliation assets	**31-12-2018**	**31-12-2017**
Invested capital	17,620	22,932
Adjustments		
Current Liabilities	18,747	17,758
Deferred Tax Liabilities	3,093	3,775
Income tax, net	752	334
Derivative financial instruments, net	385	346
Long-term loan including short-term portion	5,926	
Cash and cash equivalents	2,383	3,787
Total Assets	**48,906**	**48,932**

Product revenue segmentation is as follows:

Revenue by product type	2018		2017	
Books	9,848		9,757	
Journals	8,088		7,389	
Primary sources	1,088		1.106	
Digital revenue		19,024		18,252
Books	14,746		15,838	
Journals	2,063		2,110	
Primary sources	118		194	
Offline revenue		16,927		18,142
Total		35,951		36,394

In 2018, there was 1 customer that accounted for more than 10% of consolidated revenues: Ebsco International (4.1 million). Books represent the majority of the revenue for all segments.

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	2018	2017
Asia & Oceania	4,311	4,573
Eastern Europe	514	394
Middle East & Africa	1,160	1,297
North America	12,584	13,694
Western Europe	17,233	16,326
Rest of World	149	110
	35,951	36,394

In the US we experienced a strong decline in print book sales, and one-off eBook sales. Overall sales in Europe grew by 6% and all product lines performed well. In China our sales continued to grow steadily, but other important Asian markets like Japan and South Korea saw an overall decline in sales, especially in print books.

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

16. Expenses

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

Cost of goods sold	2018	2017
Technical production costs, content and shipping cost	10,462	11,069
Royalties	1,106	1,482
	11,568	**12,551**

Reconciliation Selling, General and administrative with personnel cost and operating expenses	2018	2017
Selling and distribution expenses	6,930	6,476
General and administrative expenses	15,094	14,052
	22,024	20,528
Personnel cost	11,757	10,767
Operational expenses	9,218	8,921
Amortization of intangible assets (non-product related) [5]	873	639
Depreciation of tangible assets [4]	174	201
	22,024	20,528

Breakdown of personnel costs is as follows:

Personnel costs	2018	2017
Salaries	10,271	9,278
Severance payments	216	0
Social security payments	1,483	1,440
Defined contribution pension arrangement	984	1,024
Other defined contribution arrangements	251	268
	13,205	12,010
Booked to Work in progress	-1,447	-1,243
	11,758	10,767

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

The average workforce amounted to an average of 166.6 FTEs (2017: 160.5 FTEs). The total workforce engaged on a fulltime basis at year end showed an increase of 2.1 FTEs from 164.9 to 167 FTEs.

At the end of 2018, 54.7 FTEs (2017: 52.5 FTEs) were working outside the Netherlands (from Brill's offices in Boston, Paderborn, Singapore and Beijing, as well as from home offices in the United Kingdom, Canada, Germany and Switzerland).

17. Finance income and expense

The interest rate received on our current account balance was 0% in 2018 (2017: 0%). Since hedge accounting applies for the financial derivatives in use at Brill, the below foreign exchange results all relate to currency-based revaluation effects on current and fixed assets and liabilities.

Finance income	2018	2017
Interest received	14	19
Foreign exchange rate differences	0	0
	14	**19**

Finance expense	2018	2017
Interest paid on credit facilities	-74	-45
Interest paid on interest bearing loan	-51	0
Foreign exchange rate differences	-68	-224
	-193	**-269**

18. Earnings per share

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

Earnings per share	2018	2017
Net income	2,304	2,260
Weighted average number of shares issued	1,874,444	1,874,444
Earnings per share attributable to shareholders of Koninklijke Brill NV (in euro's)	1,23	1.21

19. Dividend paid and proposed

Dividend	2018	2017
Dividend paid		
Dividend paid for 2016: 1.32		2,474
Dividend paid for 2017: 1.32	2,474	
Exceptional Dividend paid for 2017: 3.00	5,623	
	8,097	
Proposed dividend for 2018 (not included as a liability per December 31, 2018)		
Ordinary Dividend to be paid for 2018: 0.85	1,602	
Profit distribution proposal 2018		
Ordinary dividend on ordinary shares	1,602	
Added to retained earnings	702	
Net profit	**2,304**	

SUPPLEMENTAL INFORMATION RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 107 thousand was issued in support of this agreement. Brill USA has a rental agreement for its office located on Liberty Square, Boston, MA with duration until February 2023. Brill Singapore has a rental agreement for its office located 31 Rochester Drive, Singapore with duration until May 2019. On September 1 2018, Brill Deutschland GmbH entered into a rental agreement for its new office located Wollmarktstrasse, Paderborn with duration until August 2023. Brill's lease agreement in Beijing is short-term in nature.

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

As per December 31, 2018	2019	2020	2021	2022	2023	>2023
Company cars	39	19	7	4	0	0
Rent	710	698	703	708	392	0
	749	717	710	712	392	0
As per December 31, 2017	2018	2019	2020	2021	2022	>2022
Company cars	70	41	13	8	0	0
Rent	639	547	547	557	568	320
	710	588	560	565	568	320

21. Information concerning related parties

Subsidiaries

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

- Brill USA, Inc. (in Boston, MA)
- Brill Asia Pte Ltd (in Singapore)
- Brill Deutschland GmbH (in Paderborn, Germany)
- Brill Consulting Beijing Ltd (in Beijing, China)

In 2018, as in 2017, 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, net of a market-based discount. Furthermore, Brill USA receives a commission in line with market standards for selling online publications.

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

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

Brill Deutschland GmbH was incorporated as a 100% subsidiary of Brill on December 12, 2016. Brill Deutschland incorporates the Schöningh & Fink acquisition effective January 1, 2017 and the mentis Verlag acquisition effective January 1, 2018.

Sense Publishers BV was merged with Koninklijke Brill NV effective December 12, 2018.

Remuneration of the statutory directors and Supervisory Board
Brill has two statutory directors, supervised by the Supervisory Board. The members of the Supervisory Board receive a fixed annual remuneration. They do not receive cash or other deferred incentive payments, such as stock options or shares, nor do they accumulate pension entitlements with Brill.

The remuneration of the statutory directors, 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. There is no remuneration in stock options or shares. In addition, Brill paid 70% of the pension premium in the employee pension plan (see note 2.16) for the former Managing Director. The pension plan for the two new statutory directors is maximized as per the regular Brill pension plan.

Remuneration pay-out to the Supervisory Board and statutory directors were as follows:

Remuneration of the Supervisory Board (in thousands of euro's)	2018	2017
Steven Perrick	36	34
Robin Hoytema van Konijnenburg	29	29
Catherine Lucet	28	28
	93	91

(in thousands of euro's)	Short-term employee benefits	Post-employment benefits	Total
2018			
Herman Pabbruwe	113	31	145
Peter Coebergh*	226	9	235
Olivier de Vlam*	182	9	190
Total	521	48	569
2017			
Herman Pabbruwe	324	75	399

*For the period May-December 2018.

Total Executive Remuneration (in thousands of euro's)	2018	2017
Supervisory Board	93	91
Statutory directors	569	399
	662	490

Herman Pabbruwe's employment terminated May 30, 2018. His variable pay-out in 2018 only regards 2017 and prior periods. With these amounts, all remaining entitlements relating to long-term incentives of the former Managing Director have been settled.

The revised contracts for Peter Coebergh and Olivier de Vlam commenced as of May 2018 and no pay-outs were made to them in 2018 with regards to variable compensation that relate to their new functions.

In the 2018 accounts, the following amounts relating to variable remuneration were accrued for future pay-out.

Target achievement of statutory directors (in % of annual base salary)				
	Short-term	Short-term	Long-term	Total
Peter Coebergh	Financial	Non-financial	2018-2020	
Target	20%	20%	40%	80%
Achievement	0%	16%	0%	16%
Olivier. de Vlam				
Target	17.5%	17.5%	35%	70%
Achievement	0%	8%	0%	8%
Total accrual for variable remuneration	0	56	0	56

The short-term variable income awarded to the Management Board is based on performance criteria which in 2018 included increase of revenue, increase of EBITDA, ROIC and three non-financial targets. The increase of revenue, EBITDA and ROIC were not met. The non-financial targets were partly met.

The long-term (3 year) variable income to the Management Board will be granted according to performance criteria which are closely linked to long term value creation. The criteria in the 2018-2020 plan focus on three elements: increasing the EBITDA margin, adding acquisitions and relative total shareholder return (TSR).

Remuneration of key management personnel
Besides the Management Board and the Supervisory Board, Brill's key management include our CPO Jasmin Lange (period May-December) and our interim CFO Wim Dikstaal (November-December). Their remuneration is as follows:

	Short-term employee benefits	Post-employment benefits	Total
2018			
Total	114	7	121

Other related party transactions
The company has a related party relationship with its subsidiaries in Germany, the U.S., Singapore and China. Related party transactions are conducted on an at arm's length basis with terms comparable to transactions with third parties.
The company (Brill GmbH) also owns 5% of the shares of utb, and has a receivable against utb of 569 thousand (2017 1,034 thousand). Utb is a group of highly respected, medium-sized private publishers in Germany, Austria and Switzerland. They co-operate in university textbook publishing under the label utb for more than thirty disciplines.

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.

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

EBITDA

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

Reconciliation of Revenue and profit before tax	2018	2017
Revenue	35,951	36,394
Cost of goods sold	-11,568	-12,551
Sales costs	-6,930	-6,476
General and administrative expenses	-13,830	-13,212
EBITDA	3,623	4,156
Depreciation and Amortization	-1,047	-841
Restructuring costs	-216	
Operating profit	2,360	3,315

Return on invested capital (ROIC)

Koninklijke Brill NV 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 consolidated statement of financial position. Return on investment is calculated by dividing net operating profit less adjusted tax rate by average Invested capital.

Return on invested capital	2018		2017	
Operating profit	2,360		3,315	
Effective tax (adjusted for exceptional non-cash tax result)	-578	(24.5%)	-872	(26.3%)
Net operating profit less adjusted tax (NOPLAT)	1,782		2,443	
Invested capital	17,620		22,932	
Average invested capital	20,276		22,007	
Return On Invested Capital	8.8%		11.1%	
Asset turnover (revenue / average invested capital)	1.8		1.7	
NOPLAT margin (NOPLAT / revenue)	5.0%		6.7%	

Free cash flow

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

Free cash flow	2018	2017
Net cash flow	-1404	-2,517
Dividend paid to shareholders	2,474	2,474
Extraordinary divided	5,623	
Proceeds interest bearing loan	-6,468	
Interest and debt redemption	593	0
	817	-43

CONTENTS

COMPANY FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

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

	December 31 2018		December 31 2017	
Assets				
Non-current assets				
Tangible fixed assets [3]	289		408	
Intangible fixed assets [4]	32,383		30,901	
Financial fixed assets [5]	2,014		2,670	
		34,686		33,978
Current assets				
Inventories	2,295		2,404	
Trade and other receivables [6]	8,186		8,174	
Derivative financial instruments	711		346	
Income tax receivable	75		255	
Cash and cash equivalents [7]	1,810		3,056	
		13,077		14,235
TOTAL ASSETS		**47,763**		**48,214**
Equity and Liabilities				
Equity				
Share capital	1,125		1,125	
Share premium	343		343	
Retained earnings*	6,988		14,143	
Legal reserve*	10,228		9,757	
Other reserves	-203		-226	
Undistributed profit	2,304		2,260	
		20,785		27,402
Non–current liabilities				
Long term loan	4,843		0	
Provisions for deferred tax liabilities	3,111		3,782	
		7,954		3,782
Current liabilities				
Short-term portion of long-term loan	1,083		0	
Trade and other payables [8]	9,269		8,187	
Deferred income	8,361		8,714	
Provisions	0		23	
Derivative financial instruments	310		105	
		19,024		17,029
Total Liabilities and Equity		**47,763**		**48,214**

* 2017 retained earnings restated for error; see 2.4 for more details

COMPANY STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of euro's

	2018	2017
Gross profit		
Revenue	28,523	28,140
Cost of Goods Sold	-8,423	-8,882
	20,100	19,258
Expenses		
Selling and distribution expenses	-4,593	-4,146
General and administrative expenses	-13,525	-12,167
Operating profit	1,982	2,946
Finance income	14	26
Finance expenses	-177	-267
Profit before income tax	**1,819**	2,705
Income tax expense	199	-673
Results from subsidiaries, net of tax	286	228
Profit from continued operations, attributable to shareholders of Koninklijke Brill NV	**2,304**	**2,260**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Information regarding the Company

The company financial statements have been approved for publication by the Supervisory Board and the Management Board on April 4, 2019. Koninklijke Brill NV is established as a Naamloze Venootschap (Public Limited Company), based at Plantijnstraat 2 in Leiden, the Netherlands and registered at the chamber of commerce under number 28000012. Its certificates of shares are traded publicly at Euronext in Amsterdam.

2. Basis of preparation for the company financial statements

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

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

The accounting policies for revenue recognition (IFRS15) and financial instruments (IFRS 9) have changed as per 1 January 2018. See note 2.4 of the consolidated financial statements for the impact of these changes.

2.1 Goodwill

Goodwill relating to investments in consolidated subsidiaries is initially measured as the excess of the aggregate of the consideration transferred over the net fair value of the net identifiable assets acquired and liabilities and contingent liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.
Presentation of goodwill is dependent on the structuring of the acquisition. Goodwill is presented separately in the company financial statements if this relates to an acquisition performed by the company itself. Goodwill is subsumed in the carrying amount of the net asset value if an investment in a subsidiary is acquired through the company's intermediate subsidiary.
Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.
Goodwill relating to investments with significant influence (associates) and joint ventures is always included in the carrying amount of those investments.

2.2 Investments in Subsidiaries

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

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

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

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

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 Consolidated statement of profit or loss and other comprehensive income.

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.

Intercompany loans are measured at fair value which equals book value.

2.3 Related parties

Any related party transactions between subsidiaries, associates, investments, and with members of the Supervisory Board and the Executive Board, and the ultimate parent company Brill N.V. are conducted on an at arm's length basis with terms comparable to transactions with third parties.

2.4 Correction of errors

After adoption of the 2017 financial statements and triggered by prior year's reclassification of content from inventory to intangible assets, we considered whether or not the capitalized content costs meet the definition of capitalized development costs. We concluded that based on Dutch requirements a legal reserve is to be formed in the stand-alone financial statements equaling the amount of the capitalized content costs. Erroneously this legal reserve was not formed via the retained earnings in 2017. We did form this legal reserve in the 2018 financial statements and have restated the comparable 2017 numbers as if the legal reserve was formed by the end of December 31, 2017.

3. Tangible fixed assets

2018	Leasehold improvements	Furniture & Fixtures	IT-hardware	Total
Book value as per January 1, 2018	193	35	180	408
Investment			28	28
Depreciation	-41	-9	-97	-147
Book value as per December 31, 2018	152	26	111	289
January 1, 2018				
Cost	842	3.029	347	4,218
Accumulated depreciation	-649	-2.994	-167	-3,810
Net book amount	193	35	180	408
December 31, 2018				
Cost	842	3.029	375	4,246
Accumulated depreciation	-690	-3.003	-264	-3,957
Net book amount	152	26	111	289

2017	Leasehold improvements	Furniture & Fixtures	IT-hardware	Total
Book value as per January 1, 2017	49	10	181	240
Investment	168	34	137	339
Depreciation	-25	-8	-138	-171
Book value as per December 31, 2017	192	36	180	408
January 1, 2017				
Cost	673	2.995	210	3,878
Accumulated depreciation	-624	-2.985	-29	-3,638
Net book amount	49	10	181	240
December 31, 2017				
Cost	842	3.029	347	4,218
Accumulated depreciation	-649	-2.994	-167	-3,810
Net book amount	193	35	180	408

Estimated useful life of fixed assets is as follows: Leasehold improvements 10 years, Furniture & Fixtures between 3 and 10 years and IT-hardware 3 years. The depreciation is part of the general and administrative expenses in the Consolidated statement of profit or loss and other comprehensive income. The disposal of assets only includes fully depreciated assets that are no longer present at Brill.

4. Intangible fixed assets

2018	Publishing rights	Trade names and imprints	Goodwill	License	Capi-talized Content	Content WIP	Information Systems	Total
Book value, January 1, 2018	15,307	0	2,858	244	7,737	2,020	2,735	30,901
Acquisition	495	36	256	0	0	0	0	787
Investment	0	0	0	0	0	3,618	1,130	4,748
Transfer	0	0	0	0	3,383	-3,383	0	0
Amortization	-91	-11	0	-27	-3,146	0	-777	-4,052
Book value, December 31, 2018	**15,711**	**25**	**3,113**	**217**	**7,973**	**2,255**	**3,088**	**32,383**
January 1, 2018								
Cost	15,307	0	2,858	271	37,071	2,020	11,135	68,662
Accumulated amortization	0	0	0	-27	-29,334	0	-8,399	-37,760
Net book amount	**15,307**	0	**2,858**	**244**	7,737	2,020	**2,735**	**30,902**
December 31, 2018								
Cost	15,802	36	3,113	271	40,453	2,255	12,265	74,196
Accumulated amortization	-91	-11	0	-54	-32,480	0	-9,176	-41,813
Net book amount	**15,711**	**25**	**3,113**	**217**	7,973	2,255	3,088	32,383

2017	Publishing rights	Trade names and imprints	Goodwill	License	Capi-talized Content	Content WIP	Information Systems	Total
Book value, January 1, 2017	15,189	0	1,879	0	8,189	1,945	1,984	29,186
Acquisition	118	0	978	0	0	0	0	1,097
Investment	0	0	0	271	0	3,082	1,399	4,752
Transfer	0	0	0	0	3,007	-3,007	0	0
Amortization	0	0	0	-27	-3,460	0	-648	-4,135
Book value, December 31, 2017	**15,307**	**0**	**2,858**	**244**	**7,737**	**2,020**	**2,735**	**30,901**
January 1, 2017								
Cost	15,189	0	1,879	0	34,063	1,945	9,736	62,812
Accumulated amortization	0	0	0	0	-25,874	0	-7,752	-33,626
Net book amount	**15,189**	**0**	**1,879**	**0**	**8,189**	**1,945**	**1,984**	**29,186**
December 31, 2017								
Cost	15,307	0	2,858	271	37,071	2,020	11,135	68,662
Accumulated amortization	0	0	0	-27	-29,334	0	-8,399	-37,760
Net book amount	**15,307**	**0**	**2,858**	**244**	**7,737**	**2,020**	**2,735**	**30,901**

5. Financial fixed assets

	31-12-2018	31-12-2017	ownership
Brill USA, Inc. Boston, USA	806	808	100%
Brill Asia Pte Ltd, Singapore	95	0	100%
Brill Deutschland GmbH, Paderborn, Germany	222	113	100%
Sense Publishers BV, Leiden, the Netherlands	0	649	100%
Loans to consolidated subsidiaries	890	1,100	
	2,014	2,670	

Note that Sense Publishers BV merged with Koninklijke Brill NV effective December 12, 2018. Financial fixed assets are stated at net asset value. The value of the financial fixed assets developed as follows:

	Brill USA Inc., (US)	Brill Asia Pte, (SG)	Brill Deutschland GmbH, (GE)	Sense Publishers BV, (NL)	Loans to consolidated subsidiaries	Total
Net carrying amount, 1 January 2018	808	0	113	649	1,100	2,670
Adjusted opening balance receivable for book right returns	0	0	-92	0	0	-92
Merger Sense BV	0	0	0	-649	0	-649
Short IC loans reclassed	0	0	0	0	-210	-210
Profit 2018	-40	124	201	0	0	286
Revaluation foreign currency	38	-29	0	0	0	9
Net carrying amount, 31 December 2018	806	95	222	0	890	2,014
Net carrying amount, 1 January 2017	799	17	25	0	0	841
Investments	0	0	0	594	1,100	1,694
Profit 2017	109	-1	88	55	0	251
Revaluation foreign currency	-100	-16	0	0	0	-116
Net carrying amount, 31 December 2017	808	0	113	649	1,100	2,670

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.

	31-12-2018	31-12-2017
Trade debtors	6,317	5,978
Intercompany receivables	668	755
Other receivables	1,201	1,441
	8,186	8,174

7. Cash and cash equivalents

As per ultimo 2018, cash and cash equivalents were 1,810 thousand (ultimo 2017: 3,056 thousand). Included in this amount is 107 thousand restricted cash that serves as a guarantee for the lease contract of the Leiden office. Cash and cash equivalents not required for funding of the operations are invested in short-term bank deposits with variable rate, where possible. As per ultimo 2018 and ultimo 2017 there were no short-term bank deposits.

8. Trade and other payables

	31-12-2018	31-12-2017
Trade creditors	3,571	3,269
Intercompany liabilities	693	623
Accruals	1,567	2,342
Other short term liabilities	3,437	1,954
	9,269	8,187

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

9. Commitments

A rental agreement is in existence for our offices located in Leiden with duration until September 2023. A bank guarantee of 107 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 31, 2018	2019	2020	2021	2022	2023	>2023
Company cars	32	11	6	4	0	0
Rent	360	360	360	360	270	0
	392	371	366	364	270	0
As per December 31, 2017	2018	2019	2020	2021	2022	>2022
Company cars	59	31	5	0	0	0
Rent	330	340	350	361	372	287
	389	371	355	361	372	287

10. Audit fees

	2018	2017
Audit of annual financial statements	347	295
Other audit procedures	0	0
Tax services	0	0
Other non – audit services	0	0
	347	295

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

11. Profit appropriation

The Management Board proposes an ordinary cash dividend of 0.85 per (certificate of) ordinary share of 0.60 nominally. Refer to separate chapter 'Shareholder information'. If the Annual General Meeting accepts the dividend proposal, the 2018 profit of 2,304 thousand will be appropriated as follows:

Profit appropriation proposal	2018
Ordinary dividend on ordinary shares	1,602
Retained Earnings	702
Net profit	2,304

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
- -Remuneration of the Management Board – Note 21
- -Remuneration of the Supervisory Board – Note 21
- -Other related party transactions – Note 21
- -Events after balance date – Note 22

Due to long-term absence Management Board member Olivier de Vlam has not signed these financial statements.

Leiden, April 4, 2019

Supervisory Board
Steven Perrick
Catherine Lucet
Robin Hoytema van Konijnenburg

Chief Executive Officer
Peter Coebergh

Other Information

Appropriation of profit for the year

Bylaws regarding profit appropriation

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

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

The Brill share

Koninklijke Brill NV has been listed on Euronext Amsterdam since July 1997, 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, 2018, 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 S.A.	6%	20 July, 2016
Teslin Participaties Coöperatief U.A.	6%	6 July, 2017
J.P. van Slooten	5%	11 April, 2017
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
Add Value Fund N.V.	3%	18 July, 2014

Number of Shares

The number of shares outstanding with a nominal value of 0.60 was 1,874,444 on December 31, 2018 (on December 31, 2017 1,874,444). Of the total number of shares outstanding as of December 31, 2018, 1,834,463 certificates were issued and 39,981 registered shares were recorded in the share register.

Holdings of the former Managing Director, Members of the Supervisory Board, Management Board and Executive Committee

Herman A. Pabbruwe	8,311 certificates of shares
Peter Coebergh	600 certificates of shares
Olivier de Vlam	400 certificates of shares
Jasmin Lange	500 certificates of shares

The former Managing Director, before his appointment and for his own account and risk, acquired share (certificates) in Brill via his bank with the consent of the Supervisory Board. It has been agreed with the Supervisory Board that the CEO 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. Also the members of the Executive Committee acquired share (certificates) in Brill via their own banks with the consent of the Supervisory Board.

Independent auditor's report

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

Report on the financial statements 2018

Our opinion

In our opinion:

- The consolidated financial statements of Koninklijke Brill N.V. give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and its 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 company financial statements of Koninklijke Brill N.V. give a true and fair view of the financial position of the Company as at 31 December 2018 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 2018 of Koninklijke Brill N.V., Leiden ('the Company'). The financial statements include the consolidated financial statements of Koninklijke Brill N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the following statements for the year ended December 31, 2018: the consolidated statement of profit or loss and other comprehensive income, and the consolidated statements of cash flows and changes in total equity; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at December 31, 2018;
- the company statement of profit or loss for the year ended December 31, 2018;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework 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. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

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

Our audit approach

Overview and context

Brill is listed on the Amsterdam Stock Exchange and is an international academic publisher in the humanities and social sciences, international law, biology and natural history. Sales mainly consist of books, journals and direct access to primary sources in both print as well as digital formats. Brill makes use of an external service organization that globally provides fulfilment and distribution services for the Group. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

In 2018 several changes occurred in Brill's Management Board, as described in the introduction by the CEO in the directors' report. In May 2018, the new Management Board took office after Brill's long-time CEO retired. In October 2018, after it became clear that the Company's CFO/COO would be absent for an undefined period, Brill appointed an interim CFO. The changes in Brill's Management Board affected the Company's progress in the area of the improvement of internal controls. This impacted the nature and timing of execution of our audit activities and the subsequent reporting thereon to the Management Board and Supervisory Board.

We assessed the progress made by Brill in addressing previously reported internal control deficiencies. Apart from the effects of the launch of Brill's new digital platform on the improvement of internal controls, we noted limited progress. Based on our assessment of Brill's internal controls we concluded that a substantive audit approach, rather than a controls-based approach, is the most appropriate approach under the given circumstances. Therefore, as in prior year, we considered the internal control deficiencies as a key audit matter as set out in the section 'Key audit matters' in this report.

In the course of the last quarter of 2018, Brill revised its financial outlook for the year as financial performance was worse than expected. The slight decline in sales and increase in operating expenses in relation to organizational change introduced considerable swings into Brill's performance in terms of profit before tax. The financial developments affected the determination of our materiality to be applied in our audit as described in the section 'Materiality'.

The Group made use of third parties (i.e. agents) in conducting sales transactions. The Group's revenue recognition is fully dependent on the sales information provided by these third parties. The Management Board took limited action to improve the reliability on the reported revenues by these third parties. Formal controls have not been implemented. In our audit approach, we paid specific attention to the completeness of third party revenues and we considered this a key audit matter.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Management Board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2.6 of the financial statements, the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of goodwill, the publishing rights and capitalized content-related costs, we particularly considered this as a key audit matter as set out in the section 'Key audit matters' of this report.

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

We ensured that the audit teams both at group and component level possessed the appropriate skills and competences that are needed for the audit of an internationally operating publisher. We included in our team staff that have expertise in the areas of valuation of intangibles, VAT, IT, hedge accounting and forensics.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: € 151,900.

Audit scope

- The group consists of the components Brill the Netherlands, Brill USA, Brill Germany and Brill Asia.
- At the head office in Leiden, the group engagement team audited all significant financial statement line items of the group except the procedures described under the next bullet point.
- The group engagement team instructed the component auditor in the USA to perform specified procedures for group purposes, which included attending inventory counts in the USA.
- The group engagement team attended the inventory counts at third parties' premises in the United Kingdom and Germany.
- Audit coverage: 100% of consolidated revenue, 99% of consolidated total assets and 78% of consolidated profit before tax.

Key audit matters

- Deficiencies in internal control framework.
- Significant assumptions in the valuation of intangible assets.
- Completeness of third party sales.

Materiality

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

Overall group materiality	2018: € 151,900 2017: € 155,000
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment, we used 5% of the 3-year average of profit before tax.
Rationale for benchmark applied	We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the company. To account for the swings in profit we used a three-year average of profit before tax, whereas we used a single year metric in prior year.
Component materiality	The component materiality used for the financially significant component Brill the Netherlands equals € 150,000.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.
We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 7,500 (2017: € 7,770) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

The group audit primarily focused on the component Brill the Netherlands, as this component is individually financially significant to the group. For this component we performed an audit of the complete financial information. We selected the components Brill USA and Brill Germany for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. The group engagement team audited the financial information of these components, with the exception of certain procedures at service providers and for certain line items as described below.

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

Revenue	100%
Total assets	99%
Profit before tax	78%

The component Brill Asia did not represent more than 1% of total group revenue or total group assets. For Brill Asia we performed analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within the component. In instances where we relied on the work of other auditors, we determined the level of involvement we needed to have in their audit work in order to obtain sufficient appropriate audit evidence as basis for our opinion on the consolidated financial statements as a whole.

For Brill USA we instructed the component auditor of Brill USA to perform specified procedures in the USA. These specified procedures included procedures with respect to payroll, attending the inventory count and performing test counts at the premises of the external service provider. We received a report on the outcome of the specified procedures from the component auditor of Brill USA and we assessed the results.
We identified an external service organization in both the UK and the USA, providing significant services for the Group including invoicing, account handling, credit control, warehousing & stock control and reporting. We obtained an understanding of the nature and significance of the services provided by the external service organization, and of the controls operated at the service organization (and sub-service organization).

Prior to obtaining an ISAE 3402 type 2 report, we assessed the professional competence, objectivity and independence of the auditor of the service organization. We evaluated the ISAE 3402 type 2 report on the design and operating effectiveness of relevant internal controls over financial reporting prepared by the auditor of the service organization. We also held meetings and conference calls with the management of the service organization and its auditor to evaluate the sufficiency and appropriateness of the evidence provided by the report. We concluded that we could rely on the controls operated at the service organization for the purpose of our audit.

At the head office in Leiden, the group engagement team audited the group consolidation, financial statement disclosures and complex items. These complex items included the accounting for business combinations, hedge transactions, impairment assessments of intangible fixed assets with indefinite useful life and the amortization of capitalized content costs.
By performing the procedures above at group level combined with additional procedures at component level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

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

All three key audit matters are similar in nature to the key audit matters we reported in 2017. Last year's key audit matter 'Accounting for business combinations and fair value calculation of the intangible assets identified' is no longer a key audit matter.
We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Key audit matter	***Our audit work and observations***
Deficiencies in internal control framework *The internal control deficiencies and related impact are included in the paragraph 'Risk management and internal control in 2018' in the director's report and in the supervisory board's report of the annual report.*	We evaluated internal controls in key business processes and assessed the actions taken by the Company in 2018. We communicated the deficiencies that are still applicable and the limited progress made to the Management Board and the Supervisory board.
In 2017, the Company started to follow up on internal control deficiencies reported by us in prior years. As part of our examination of internal controls, we noted that (significant) control deficiencies were not solved during 2018 and that the internal control framework, in particular in the areas of information technology and revenue, was not sufficiently improved to mitigate the risks of a material misstatement to an acceptable level. Brill partly attributes the lack of progress to the staffing shortages during the year.	Based on the deficiencies noted, we took a substantive audit approach rather than a controls-based audit approach. We designed and performed our substantive audit procedures to address the control deficiencies known and to obtain sufficient and appropriate evidence. These procedures included, amongst other procedures, testing significant samples of revenue transactions, substantive testing of inventories, substantive testing of paid advances, back testing of estimates and review of logging files from the main financial systems.
Due to the significance of the identified internal control deficiencies, the related areas of the financial statements were subject to higher risk of material misstatement due to fraud and/or error. This had an impact on the design of our audit. We therefore consider this matter as a key audit matter.	Our substantive procedures resulted in audit adjustments that have been corrected in the financial statements.

Key audit matter

Significant assumptions in the valuation of intangible assets

Refer to '2.6 Significant Accounting estimates, judgements and assumptions' and 'Intangible fixed assets' in the general information in the financial statements.

As of 31 December 2018, the intangible assets include balances related to goodwill (€ 3.4 million), publishing rights (€ 15.8 million) and capitalized content costs including content WIP (€ 10.0 million).

The valuation of these classes of intangible assets were a focus area in our audit, because the balances are highly material and the valuation is based on significant assumptions and therefore subject to risk of misstatement due to error or fraud.

Goodwill and indefinite lived publishing rights

Goodwill and indefinite lived assets are tested for impairment at least annually. The recoverable amounts of the cash-generating units (CGUs) have been determined based on value-in-use calculations based on the expected future cash flows from those CGUs.

As explained on page 57, the cash generating units correspond to the six (2017: five) operating segments ARC, HIS, LAW, MIA, LLA and S&F. The segment LLA was identified and segregated from MIA in 2018. The operating segments are described in the segment information on page 81

The impairment tests included discounted future cash flows that contained significant estimates made by the Company. The most important assumptions included in the estimates related to the discount rate used, growth rates, market developments, development of cost of goods sold and the Company's future plans. Given their sensitivity, any change in the important assumptions could have a significant effect on the financial statements.

In particular the impairment tests for CGUs MIA and S&F were critical, because any change in assumptions would lead to impairment charges.

Capitalized content costs

As explained on page 69, content cost of internally developed publications, primary sources and information systems are recognized as intangible fixed assets.

The valuation of content is dependent on the amortization charge that is based on the estimated pattern of consumption of the expected future economic benefits. Changes in the estimate might have a significant effect on the valuation of content as a result of higher or lower amortization.

Our audit work and observations

Impairment assessment intangibles

We obtained the impairment tests prepared by the Company. We challenged the assumptions and estimates used in the impairments tests, including the determination of CGUs and the allocation of assets to CGUs. In challenging management judgments and assumptions we evaluated whether or not there are biases that could represent a risk of material misstatement due to fraud. We reconciled growth percentages used to the strategic plan 2018-2020 of management and compared these to historical growth percentages and sector information from public sources. With the assistance of our valuation experts we assessed management's calculation of the discount rate and assessed whether the discount rate used is consistent based on available market data. We compared the current year actual results with prior year forecasts of 2018 figures. We considered whether these prior year forecasts contained assumptions that, with hindsight, were too optimistic. We also performed sensitivity analyses of value in use for different discount rates and terminal growth rates. We focused our audit efforts on MIA and S&F as changes in important assumptions were critical for the market values of these CGUs.

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

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

Capitalized content costs

We evaluated the consistency and appropriateness of the accounting policy with respect to content and amortization of content. We tested capitalized content costs on a sample basis by agreeing selected capitalized content costs to supporting documents. We recalculated the amortization of content and agreed the inputs of the calculation to the underlying estimated consumption patterns. We assessed the quality of the estimated patterns by critically challenging management's assessment based on inquiry and lookback procedures. More precisely, we challenged management on assumptions made regarding useful life of content and the pattern of economic benefits.

Our procedures did not identify material exceptions, except for the absence of a legal reserve related to capitalized content costs, for which we have evaluated the appropriateness of the correction of this error.

Key audit matter	Our audit work and observations
Completeness of third party sales *[reference to marketing and sales paragraph in the Company profile in the annual report]* Approximately € 3 million of Brill's revenues is realised through agents of the Company. These third parties sell Brill's digital products based on predetermined prices via their own sales channels. They provide Brill information about the quantities sold. Brill records revenue based on the information of the agents. The completeness of recorded revenue is therefore dependent on the completeness of the information on sales received from agents. Due to staff shortage during 2018 (refer to 'Deficiencies in internal control framework') Brill took limited action to address the deficiency in internal control over the completeness of the sales information from agents. Given the size of the third party sales combined with the absence of effective internal controls, we considered the third party sales as an area subject to higher risk of material misstatement and therefore as a key audit matter.	We required management to prepare an analysis on the completeness of the revenues reported by the agents from a historical perspective. We reviewed this analysis and critically assessed the reasonableness of the assumptions made by management by comparison to developments in the market. We followed up on any unexpected or unusual fluctuations in revenue reported by agents. In addition, we reconciled confirmations that Brill obtained from third parties to Brill's accounting records and verified the authenticity of these confirmations. We also assessed the signed agreements with these third parties. Our procedures did not identify material exceptions and we considered management's assumptions reasonable.

Report on the other information included in the annual report

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

- the directors' report ('director's report on the year 2018');
- the 'supervisory board's report';
- the 'remuneration policy' report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- 'Supplemental Information'.

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

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

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

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.
The Management Board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Koninklijke Brill N.V. on 13 May 2015 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 13 May 2015. The appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 4 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

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

Responsibilities for the financial statements and the audit

Responsibilities of management and the supervisory board for the financial statements

The Management Board 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 Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion. A more detailed description of our responsibilities is set out in the appendix to our report.

Utrecht, April 4, 2019
PricewaterhouseCoopers Accountants N.V.
Original has been signed by
drs. J.W. Middelweerd RA

Appendix to our auditor's report on the financial statements 2018 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 management.
- Concluding on the appropriateness of management'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 consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

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

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Supplemental information

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

Activities

Of the total number of outstanding shares as at December 31, 2018 (nominal value of 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 47.0 thousand in 2018 (64.7 thousand in 2017). The trust office's chairman receives a remuneration of 9 thousand on an annual basis and the other two board members each receive a remuneration of 7.5 thousand on an annual basis.

During the Board meeting held on April 12, 2018, the 2017 Annual Report and financial statements, the company's strategy and its implementation and the general course of events within the company were discussed. In addition, the agenda for the General Meeting of Shareholders was discussed. The decision was made to refrain from voting in relation to all motions tabled.

In the company's General Meeting of Shareholders which took place on May 17, 2018, 98% of the company's issued capital was represented. The trust office granted authorization to holders of 61.7% of all depositary receipts to vote independently on the shares for which they held the depositary receipts. The trust office refrained from exercising the right to vote on the shares for which no voting instruction was issued. For the depositary receipts of shares for which the trust office received a voting instruction, the trust office casted a vote in the meeting.

Board composition

At December 31, 2018, the composition of the trust office's board was as follows:

Name	Appointed	In office until	Position
Marco P. Nieuwe Weme, Prof. LL.M.	2016	2020	Chairman
Joost C. Kuiper, LL.M.	2018	2022	Member
Yvonne C.M.T. van Rooy, LL.M.	2016	2020	Member

The Board has reappointed Mr. Joost Kuiper in 2018 for a term of four years.

Corporate Governance

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

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

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

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

Declaration of Independence

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

Leiden, April 4, 2019

Stichting Administratiekantoor Koninklijke Brill
The Board

REPORT OF STICHTING LUCHTMANS

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

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

At the end of 2018, the composition of the foundation's board was as follows:

Name	Appointed	Current term until	Position
Piet van Sterkenburg	2006	1 July 2018	Chair
Hélène Vletter-van Dort	1 July 2018	2021	Chair
Herman P. Spruijt	2014	2022*	Vice chair
Joris P. Backer, LL.M.	2008	2020	Secretary/treasurer
Tanja Bender	2017	2020	Member

The Board of the foundation aims to meet at least once a year. One meeting in person took place in 2018 (April 17). In this meeting, the company's 2017 results, the implementation of the strategy, financing, acquisitions, market developments, and the general course of events within the company were discussed. Procedures for the succession of Mr. van Sterkenburg were discussed as was the reappointment of Mr. Spruijt in 2019. Mr. Spruijt has ample expertise in the field of (international) publishing and is of great value to the Board. Therefore the Board would like to reappoint him.

Piet van Sterkenburg retired as Chair from the Board at the expiration of his last term. The Board and the company have expressed their debt of gratitude to Mr. van Sterkenburg for his support and excellent chairmanship during twelve years of service.

Hélène Vletter-van Dort was appointed the new Chair as per 1 July 2018. Mrs. Vletter-van Dort is Professor at Law of Erasmus School of Law at Erasmus University in Rotterdam and holds various positions as a non-executive and supervisory board director. An additional meeting with the full Board was held on 30 January 2019. During this meeting the mutual acquaintance with the new Chair took place. Other items discussed were: how to secure the Foundation's (financial) independence, compensation of the Board in the event of a crisis, potential appointment of independent legal counsel, the switch of the standby facility arrangement from ABN AMRO to Rabobank.

* In the Annual Report 2017 a typo was discovered in the overview of the composition of the foundation's board concerning the term of Mr. Spruijt. Mr. Spruijt was appointed on his own behalf for a two-year term in 2014 and subsequently for a three-year term (which term is in accordance with the articles of association) in 2016. Mr. Spruijt has been reappointed for another three-year term following the meeting of the Board on 30 January, 2019.

Declaration of Independence

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

Leiden, April 4, 2019

Stichting Luchtmans,
The Board

FINANCIAL AGENDA 2019

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

Publication of Results First Half Year 2019
August 29, 2019 after stock market close

Trading Update Third Quarter 2019
October 22, 2019 after stock market close

FINANCIAL AGENDA 2020

Announcements of Results 2019
March 26, 2020 after stock market close

Publication Annual Report 2019 on corporate website (brill.com)
April 7, 2020

Trading Update First Quarter 2020
April 21, 2020 after stock market close

Annual General Meeting of Shareholders
May 19, 2020 (2.00 PM at Brill premises)

Investor Relations
Brill will be happy to provide (potential) shareholders and other stakeholders with relevant information to the best of its ability. Copies of (semi-) annual reports can be found at brill.com, under: https://brill.com/page/InvestorRelations/investor-relations.

In addition, information may be requested via the following address.

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ABOUT THIS ANNUAL REPORT

Annual report and Brochure

This annual report is available in PDF format on brill.com under https://brill.com/page/InvestorRelations/investor-relations.

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

The brochure 'Brill in 2018' will also be available on brill.com under https://brill.com/page/InvestorRelations/investor-relations