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Koninklijke Brill NV

Half Year Report 2016

17 August 2016

Brill reports strong HY1 with underlying improvement of performance

Key Figures (in EUR x million)	2016 HY	2015 HY*)	2015 YE
Revenues	14.4	13.2	30.8
EBITDA	1.7	0.8	3.8
Operating profit	1.3	0.4	3.0
Profit from continued operations	0.9	0.2	2.3
Profit	0.7	0.2	2.3
Earnings per share (EUR)	0.37	0.12	1.24
Net cash flow	-3.8	-3.3	1.0

*) 2015 HY results restated for impact of accounting changes implemented at year end 2015

Highlights

- 9% growth in revenue, driven by subscription and digital revenue as well as one off sales and currency effects
- Further progress in shifting the portfolio towards digital, subscription based products
- EBITDA grew by EUR 0.9m; new logistical and production arrangement contributed 0.2m
- While underlying cash flow improved as a result of the good sales results, net cash flow was impacted by 1.1m higher tax payments – half of which is one-off, and half is timing
- Publication pipeline filled and journal copy flow in good shape
- Title divestment leads to one-time, non-cash impact on 2016 profit of EUR -0.2m but is accretive to profit and margin in future years
- Editorial workflow system ready for go-live, processing journals as of HY2
- Outlook raised to 2-3% revenue growth and a marked increase of EBITDA resulting in margin improvement of 1-2%
- Brill Asia now incorporated as a legal entity in Singapore, poised for further development of our Far East presence.

Developments in the first half year 2016

Results

Revenues showed a strong increase versus restated 2015 results:

(in EUR million)	Revenue	Growth	Contribution to total growth
2015 HY	13.2		
Currency	0.3	na	2.5%
Print books	-0.5	-8.6%	-3.7%
eBooks	1.1	34.5%	8.0%
Journals	0.2	6.5%	1.8%
PS	-0.0	-7.3%	-0.3%
Other	0.1	28.2%	0.5%
2016 HY	14.4	8.8%	8.8%



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The first six months saw strong growth in digital products. eBook revenue was lifted by underlying subscription sales and two major deals in Lebanon and China for a total of EUR 0.3m. Sales of print books declined versus last year mostly due to timing differences in the publishing schedule; we published 10% fewer titles than in the first half year of 2015. As a percentage of total revenue, digital revenues (electronic products and rights) increased to 57% versus 51% last year, showing underlying growth of 23%. Subscription revenue grew by 8%. However due to the high level of transactional revenue the proportional share of subscription revenue came in at 42% versus 43% last year.

The currency effect refers to the difference in the impact of hedge accounting recorded in revenue this year, versus the effect recorded last year.

Cost of goods sold increased in line with expectations, with growth in fixed cost of content and variable royalty and journal related cost partly compensated by lower print book volumes and cost savings from the new POD arrangement.

Operating expenses were flat versus last year with structural savings in fulfillment compensating for changes in timing of personnel cost and product development.

Balance sheet and cash flow

Compared to last year June, Working Capital improved in line with trends noted at year end 2015, as a result of higher deferred income and lower inventories. Receivables increased partly due to the higher sales volume but also due to a temporary delay in payments from one major customer. Payments have resumed normally meanwhile. Net cash flow was impacted by higher tax payments, as a result of a one-off deferred tax payment related to the VSP divestment in 2012 and a prepayment of 2016 taxes to take advantage of early payment discount. The solvency rate increased to 61.3% (HY 2015: 60.9%).

Title divestment

Following a review of strategic alternatives, Brill decided to divest *The International Year Book and Statesmen's Who's Who* to Global Reach Publishers, Ltd. in the UK. The impact on 2016 profit of EUR 168k results from a one-time, non-cash write down of purchasing rights, work in progress and inventory. In future years, Brill expects a minor ongoing profit contribution as a result of a five-year marketing and distribution agreement made with the buyer.

Outlook

Given the encouraging results in the first half of the year, the company narrows guidance for revenue to organic growth of 2-3% with a marked increase of EBITDA resulting in margin improvement of 1-2%. HY2 2015 benefited from a material one-off sale of 0.3m and we expect the currency effect to abate slightly compared to HY1 2016. Also, as always, we are heavily dependent in our annual performance on end of year sales. As a result, the outlook for HY2 2016 is more cautious than might be expected from the HY1 performance.

Corporate Governance

As announced during the AGM on 19 May, the company has initiated consultations with its major stakeholders regarding its corporate governance structure. In order to complete the governance review, the company will await the publication of the final corporate governance code update which is expected during HY2.



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Extraordinary General Meeting

At the EGM on 24 August, the Supervisory Board proposes to appoint Mr. Steven Perrick as a new member, filling the vacancy that occurred upon the scheduled retirement of Mr. André van Heemstra.

Risk management

No significant changes occurred in the company's assessment of relevant risks since the publication of the annual report 2015. As announced earlier, the standing contract structure of currency hedging was extended to include hedging of USD based operating expenses starting HY2. The objective of this policy extension is to better synchronize the exchange rates at which revenue and costs are converted in our income statement.

Responsibility Statement

The half year report 2016 is an accurate account of assets and liabilities, the financial position and the profit of Koninklijke Brill NV and the entities which are included in the consolidation. Also the half year report is an accurate account of the situation on the balance date, the state of affairs during the fiscal year of Koninklijke Brill NV and that of the entities whose data are included in the half year report and the expected state of affairs. Special attention is paid to investments and to the circumstances on which revenues and profitability depend. Please note that the figures per 30 June 2016 have not been reviewed nor audited.

Herman A. Pabbruwe
Chief Executive Officer



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Consolidated balance sheet as per June 30, 2016

in thousands of euro's

	Notes	2016 HY (Unaudited)	2015 HY (Unaudited & restated)	2015 YE (Audited)
ASSETS				
Non-current assets				
Tangible fixed assets		1,226	1,472	1,380
Intangible assets		17,769	17,781	17,780
		18,995	19,253	19,160
Current assets				
Inventories	6	13,241	13,495	13,302
Trade and other receivables	7	6,473	6,076	7,971
Prepaid income tax		525	0	0
Derivative financial instruments		0	355	0
Cash and cash equivalents	7	2,462	1,956	6,299
		22,701	21,882	27,572
TOTAL ASSETS		41,696	41,135	46,732
LIABILITIES				
Equity attributable to owners of Koninklijke Brill NV				
Share capital		1,125	1,125	1,125
Share premium		343	343	343
Retained earnings		23,576	23,569	23,569
Other reserves		-171	-239	-203
Undistributed profit		699	233	2,332
		25,572	25,031	27,166
Non-current liabilities				
Deferred tax liabilities		3,633	4,201	3,626
		3,633	4,201	3,626
Current liabilities				
Trade and other payables	7	5,859	5,268	6,812
Deferred income		6,563	6,035	8,189
Provisions		0	148	104
Derivative financial instruments	7	69	452	184
Tax to be paid		0	0	651
		12,491	11,903	15,940
LIABILITIES		41,696	41,135	46,732



Consolidated income statement and statement of comprehensive income for the six months ended June 30, 2016

in thousands of euro's

	Notes	2016 HY (Unaudited)	2015 HY (Unaudited & restated)
Gross profit			
Revenue	8	14,373	13,206
Costs of goods sold		<u>-4,639</u>	<u>-4,375</u>
		9,734	8,831
Expenses			
Selling and distribution costs	9	-2,494	-2,942
General and administrative expenses			
General operating expenses	9	-5,586	-5,106
Amortization of intangible assets		-77	-86
Depreciation of tangible assets		<u>-292</u>	<u>-309</u>
		-8,449	-8,443
Operating profit		1,285	388
Finance income		13	2
Finance expenses		<u>-144</u>	<u>-72</u>
Profit before tax		1,154	318
Income tax expense	10	<u>-287</u>	<u>-90</u>
Profit from continued operations attributable to the shareholders of Koninklijke Brill NV		867	228
Discontinued operations			
Profit/loss after tax for the period from discontinued operations		<u>-168</u>	<u>5</u>
Profit for the period		699	233
Other comprehensive income – items that might be reclassified to future profit or loss statements			
Exchange differences on translation of foreign operations		-12	27
Cash flow hedges		<u>59</u>	<u>124</u>
		47	151
Income tax on other comprehensive income		<u>-15</u>	<u>-31</u>
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV		731	353
Earnings per share			
Basic/diluted earnings per share for the period attributable to the shareholders of Koninklijke Brill NV		0.37	0.12

**Condensed Consolidated statement of cash flows
for the six months ended June 30, 2015**

in thousands of euro's

	notes	2016 HY (Unaudited)	2015 HY (Unaudited)
Cash flows from operating activities			
Profit before tax from continuing operations		1.154	318
Profit before tax from discontinued operations		-223	7
<u>Adjustments for:</u>			
Amortization and Depreciation		442	463
Finance costs – net		131	-186
Adjustments to derivatives		-1	68
Change in operating assets and liabilities		-71	-23
Change in working capital		-1.115	-808
Change in provisions		-104	-45
Cash generated from operations		213	-206
Interest paid		-7	-27
Income tax paid		-1.410	-320
Net cash from operating activities		-1.417	-347
Net cash from investment activities	5	-309	-589
Cash flow from financing activities			
Dividend paid to company shareholders	12	-2,324	-2,156
Net cash from financing activities		-2,324	-2,156
Net cash flow		-3,837	-3,298
Cash and cash equivalents at January 1		6,299	5,254
Net cash flow		-3,837	-3,298
Exchange differences on cash and cash equivalents		0	0
Cash and cash equivalents at June 30		2,462	1,956



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Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2015

in thousands of euro's

	Share capital	Share Premium	Retained Earnings	Exchange Difference Reserve	Cash flow Hedge reserve	Unallocated Profit	Total Equity
2015							
At 1 January 2015 (audited)	1,125	343	23,572	-103	-256	2,153	26,834
Profit for the period	0	0	0	0	0	233	233
Other comprehensive income	0	0	0	27	93	0	120
Total comprehensive income for the period	0	0	0	27	93	233	353
Dividend paid over prior year	0	0	0	0	0	-2,156	-2,156
Retained earnings prior year	0	0	-3	0	0	3	0
Total contribution by and distribution to owners	0	0	-3	0	0	-2,153	-2,156
At 30 June 2015 (unaudited)	1,125	343	23,569	-76	-163	233	25,031
2016							
At 1 January 2016 (audited)	1,125	343	23,569	-123	-80	2,332	27,166
Profit for the period	0	0	0	0	0	699	699
Other comprehensive income/expense	0	0	0	-12	44	0	32
Total comprehensive income/expense for the period	0	0	0	-12	44	699	731
Dividend to shareholders	0	0	0	0	0	-2,324	-2,324
Profit previous year added to retained Earnings	0	0	7	0	0	-7	0
At 30 June 2016 (unaudited)	1,125	343	23,576	-135	-36	699	25,572



Notes to the Unaudited Condensed Consolidated interim financial statements

1. Reporting entity

The condensed consolidated interim financial statements were authorized for issue by the Supervisory Board and Executive Board on 17 August 2016. Koninklijke Brill NV is incorporated in the Netherlands and has its headquarters in the Netherlands. The shares of Koninklijke Brill NV are publicly traded at the Euronext in Amsterdam.

2. Accounting policies and estimates

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS34 'Interim financial reporting'. The condensed consolidated interim financial statement should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS. The new standards that became effective as of 1 January 2016 are not expected to have a material impact on the condensed consolidated interim financial statements. All amounts are mentioned in thousand EUR (K€), unless otherwise mentioned.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

3. Audit

The condensed consolidated interim financial statements for the six months ended June 30, 2016 have not been audited nor reviewed.

4. Seasonality

A significant part of Brill's book program is published in the second half of the year which also means that revenues tilt towards the second half of the year. Although the journals are more equally published throughout the year the number of subscriptions shows a limited growth in the course of the year. In general, most revenue is recorded in the second half of the year. The costs develop in general more equally throughout the year which is expected to result in a favorable development of the profit in the rest of the year.

5. Acquisitions, investments and divestments

As per 30 June 2016 no material commitments were made concerning the acquisition of assets.

One title was divested at zero sales price but with a marketing and distribution agreement that entitles Brill to a percentage of revenue in the future. The after-tax, onetime, noncash impact on Net income was 168 K€ reflecting the net of the balance sheet value of the assets involved and the results in the year up to and until the transaction date.

In the first half of the year, a total amount of K€ 141 was invested in tangible fixed assets and an amount of K€ 139 was invested in software (intangible assets). The remainder of cash spent on investment activities relates to acquisitions made in earlier years.

6. Inventories

Included in the value of the inventories is an adjustment for obsolete inventory. In the first six months of the year this provision increased by € 146 thousand.

7. Financial instruments

Fair value	2016 HY (Unaudited)	2015 YE (Audited)
Financial assets		
Trade and other receivables	6,473	7,971
Cash and cash equivalents	2,462	6,299
Financial liabilities		
Trade and other payables	-5,859	-6,812
Forward currency contracts	-69	-184

Hedge accounting

Koninklijke Brill NV only makes use of cash flow hedging by using synthetic forward currency contracts. At 30 June 2016 US dollar 8.05 million (2015 US dollar 8.35) worth of forward agreements was outstanding with a maximum duration of 12 months and with a fair value at the end of the reporting period of minus € 69 thousand (2015 minus € 452 thousand). The forward currency contracts used for the cash flow hedge were reviewed at 30 June 2016 and are considered to be effective. The forward currency contracts eliminate the fluctuation in exchange rates of the future sales related cash flows in US dollars.

8. Operating segment information

The publishing activities of Brill are divided into specialty areas which management considers to be reportable segments. The segments are:

- **LAW:** International Law, Human Rights and Humanitarian Law and International Relations
- **MIA:** Africa, Cultural studies, Language and Linguistics, Literature, Middle Eastern and Islamic studies and Asian studies.
- **HIS:** History (including medieval, early modern and modern history, history of warfare, history of science, book history and history of cartography), American studies, Slavic and Eurasian studies, Social Sciences and Biology.
- **ARC:** Philosophy (including philosophy and ethics), Art, Religion and Bible Studies, Theology, Jewish studies, Ancient Near East, Egyptology, Classical Antiquity and Latin literature.

In order to make strategic decisions on the allocations of resources the management of Brill reviews the performance of individual segments, focusing on the profitability and potential of the segment. Depreciation and amortization of assets, financial income and expense are not allocated at the segment level.

Segment revenue and results						
Segment	LAW	MIA	HIS	REL	Not allocated	Total
Six months ended 30 June 2016						
Revenue	2,693	4,185	3,046	4,449	0	14,373
EBITDA/Profit before tax	416	249	110	879	-500*	1,154
Six months ended 30 June 2015						
Revenue	2,664	4,025	2,754	3,762		
EBITDA/Profit before tax	347	154	-123	405	-464	318

* Not allocated consists of depreciation/amortization (€369 thousand) and financial income and expense (€131 thousand).

Segment assets						
Segment	LAW	MIA	HIS	REL	Not allocated	Total
As at 30 June 2016	15,601	11,171	6,966	7,909	64	41,711
As at 30 June 2015	15,816	11,140	6,496	7,328	355	41,135

9. Personnel Expenses

	2016 HY	2015 HY
Salaries and wages	4,064	4,003
Social security charges	593	560
Costs of defined contribution pension plan	442	472
Costs of other defined contribution plans	135	130
	5,235	5,165
Personnel expenses booked on Work in Progress	-594	-710
Personnel expenses reported as operating costs	4,641	4,455

10. Income taxes

The major components of income tax expense in the condensed consolidated interim statement of comprehensive income are:

Income tax reported in the condensed consolidated interim statement of comprehensive income	2016 HY	2015 HY
<u>Current income tax:</u>		
Current income tax charge	262	69
<u>Deferred income tax:</u>		
Relating to origination and reversal of temporary differences	25	21
	287	90

 11. Earnings per share

Earnings per share	2016 HY	2015 HY
Profit for the period ended 30 June 2016	699	233
Weighted average number of ordinary shares for basic earnings	1,874,444	1,874,444
Basic/Diluted profit per share for the period ended 30 June 2016 attributable to ordinary shareholders of Koninklijke Brill NV	0.37	0.12

 12. Dividends paid

Declared and paid during the period ended 30 June 2016	2016 HY	2015 HY
Dividend on ordinary shares: declared dividend over 2015 124 cents (over 2014: 115 cent)	2,324	2,156

 13. Events after Balance Sheet date

No significant changes in the business, transactions or acquisitions took place after balance sheet date.