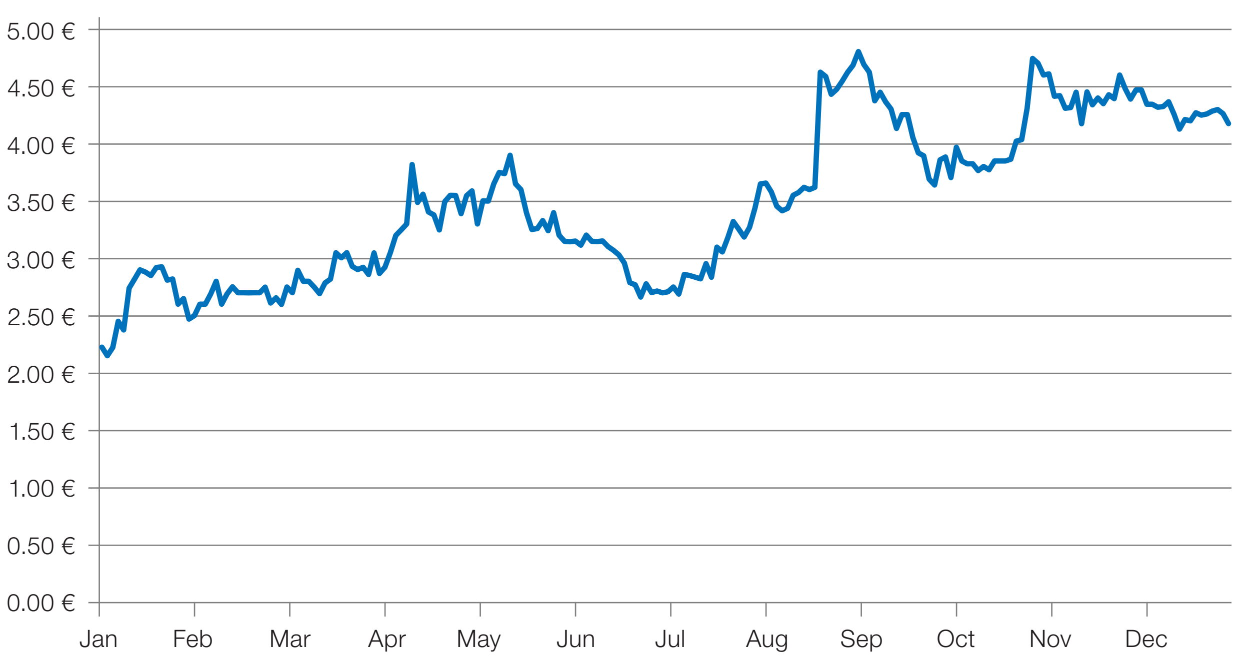
artnet AG

Annual Report 2017

Key Financial Figures for the artnet Group

	12/31/2017	12/31/2016	Difference (Balance)
Revenue (k USD)	20,769	19,237	1,532
Profit from Operations (k USD)	407	713	(305)
Earnings Before Tax (k USD)	472	746	(274)
Earnings per Share (USD)	0.14	0.13	0.01
Weighted Number of Shares (k USD)	5,553	5,553	–
Cash Flow from Operating Activities (k USD)	1,212	989	223
Staff (Year End)	122	115	7
Cash and Cash Equivalents (k USD)	1,328	1,110	217
Equity (k USD)	2,035	1,546	488
Total Assets (k USD)	6,902	5,812	1,090

Development of the artnet AG Share XETRA Closing Prices in 2017



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Dear Shareholders,

Jacob Pabst
CEO, artnet AG

The global economy is growing, consumer confidence is up, stock markets have seen steady growth, and global auction sales in 2017 rebounded after a two-year slump.

Against this positive economic backdrop, we are expanding our position as the only dedicated online auction platform and leading data analytics provider for fine art. We continue to invest in talent, product development, and cutting-edge technology to ensure artnet remains nimble and achieves a growing market share. The stock market has responded to our successful long-term strategy, as artnet's stock price rose by more than 80% in 2017, outperforming both the German DAX and the S&P 500 indices.

Driven by double-digit revenue increases in the artnet Auctions and artnet News segments, in 2017 we grew our total revenue by 8% to 20.8 million USD. Compared to the previous year, our net income increased by 12% to 784k USD.

artnet Auctions is thriving. Fee-based revenue increased by 26% to 4.0 million USD, making 2017 the most profitable year since the product launched in 2008. Auctions now contributes roughly 20% of our overall revenue, as the art market embraces online auctions for its efficiency and economy. Top lots sold for more than 100k USD, and the average lot value in 2017 increased by 46% to more than 12k USD. We are continuously improving the platform, including a recent redesign that simplifies the online buying and selling process.

artnet News is solidifying its position as the leading news service dedicated to covering the events, trends, and people of the global art world. By shaping the debate with high-quality original content, we are driving traffic as well as attention to the artnet brand, thereby making the site uniquely attractive to high-end advertisers. Advertising revenue for News increased by 41% to 2.7 million USD, mainly driven by luxury brands. artnet News, which launched in 2014, now contributes two-thirds of artnet's total advertising revenue. Because of the strong performance of advertising on News, advertising revenue increased by 17% to 4.1 million USD in total.

Revenue for the artnet Galleries segment decreased by 2% to 5.2 million USD, due to a slight decline in memberships and a drop in advertising revenue. Many smaller and mid-sized galleries, which represent an important section of our client base, continue to struggle with high operational costs, demanding art fair schedules, and increased competition. The Gallery Network offers galleries the opportunity to showcase inventory to a global online audience, and we are constantly improving the platform with new and enhanced product features. The Gallery Portal, a content management system, launched in September 2017 to widespread praise from our gallery members. This tool allows them to independently manage inventory on their artnet member site, freeing time to curate artworks, generate inquiries, and connect to customers. We expect a turnaround for the artnet Galleries segment in 2018.

The artnet Price Database continues to be the gold standard for art auction results, offering subscribers unique access to more than 11 million illustrated records from 1,700 auction houses dating back to 1985. World-class museums, collectors, auction houses, gallerists, and leading financial institutions profit from the transparency our database provides. Revenue in the segment increased by 3% to 7.4 million USD, mainly driven by higher advertising revenue and increased demand for Analytics. Based on proprietary algorithms, Analytics offers tools for in-depth art market analysis.

Faced with an increasingly competitive environment against well-funded and aggressive startups, efforts to grow our business and market share require continual investment in talent and technology. We are in the process of applying artificial intelligence company-wide to streamline projects, automate processes, and cut costs. Furthermore, we are upgrading our overall technology infrastructure with project FALCON. Like its namesake, we expect FALCON to make artnet even more agile, faster, and efficient upon its anticipated completion in 2019.

Overall, artnet is strongly positioned in the industry. We offer clients a much broader product portfolio than our competitors. The growing popularity of online auctions and the ever-increasing demand for quality information and analysis will further drive our business. I also see tremendous potential for the continued application of artificial intelligence.

Whether it is through original news reporting, in-depth analysis of sales trends, or online auctions of sought-after artworks, artnet continues to offer clients superior products and solutions. We will be the art market's leading online provider of information, analytics, and auctions for years to come.

Berlin, March 20, 2018

Jacob Pabst
CEO, artnet AG

Core Statement

artnet is the leading online resource for the international art market. Established in 1989, artnet provides reliable information and market transparency to art collectors. Our comprehensive suite of products includes the Price Database, which offers objective price information, and the Gallery Network, a platform for connecting leading galleries with collectors from around the world.

With 24/7 worldwide bidding, artnet Auctions was the first online marketplace for collecting art. Our auction platform allows for immediate transactions, with seamless flow between sellers, specialists, and collectors. artnet News is a dedicated 24-hour international art market newswire that informs, engages, and connects the art community through timely articles and insightful opinion pieces.

Company Development

artnet AG was formed in 1998 as an information service provider for the art market. It took over Artnet Worldwide Corporation, which was formed in New York in 1989, and moved the Price Database and the Gallery Network online by the mid-1990s.

artnet has modernized the way people buy, sell, and research art. Its products provide reliable and transparent information used by collectors, gallery owners, museums, and investors, and have become indispensable tools for independent market players. Through artnet Auctions, artnet has developed from a pure information service provider to a transaction platform, and has further expanded its leading position in the art market.

artnet has gradually built up its information services and transaction platform around its first product, the Price Database. The database was created as a response to the decentralized art market of the late 1980s. At the time, the market lacked transparency, which was a stumbling block for buyers in particular. The art business had, of course, always been international, but it was managed locally in a relatively inefficient market by tens of thousands of geographically disparate art dealers, galleries, auction houses, book publishers, museums, and collectors.

The Price Database provides these local markets with a global standard of comparison, listing fine art, design, and decorative art auction results, including results for more than 340,000 artists and designers. Since 2009, the Price Database Decorative Art has provided results for international antique auctions. Today, the Price Database contains over 11 million auction results from more than 1,700 international auction houses, dating back to 1985.

Another pillar of the business is the Gallery Network, which was introduced in 1995. With approximately 1,200 galleries and over 190,000 artworks by nearly 21,000 artists from around the globe, this product is the most comprehensive platform for galleries online. The Gallery Network serves dealers and art buyers in equal measure by giving them an overview of the global market and price trends, while allowing users to be in direct contact with the gallery.

Created in 2008, artnet Auctions was the first online platform dedicated to buying and selling art. With fast turnaround and low commissions, artnet Auctions is available around the clock. Every step of a sale, from selling to placing bids, happens more efficiently and quickly than at traditional brick-and-mortar auction houses.

In 2014, artnet launched a 24/7 global art newswire: artnet News. artnet News is a one-stop platform for the events, trends, and people that shape the art market and global art industry, providing up-to-the-minute analysis and commentary, with the highest possible standards in cultural journalism.

Company Background

artnet.com AG was incorporated under the laws of Germany in 1998. In 1999, Management took the Company public on the Neuer Markt of the Frankfurt Stock Exchange. In 2002, artnet.com AG changed its name to artnet AG. On October 4, 2002, artnet AG left the Neuer Markt, and was then listed in the General Standard of the Frankfurt Stock Exchange, a segment of the EU-regulated Geregelter Markt. Effective February 1, 2007, artnet AG is listed in the Prime Standard of the Frankfurt Stock Exchange, the segment with the highest transparency standards. Its principal holding is its wholly owned subsidiary, Artnet Worldwide Corpo ration, a New York corporation that was founded in 1989. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

Report of the Supervisory Board

In the year under review, the Supervisory Board performed the duties set out by law and statues and supervised management. Since its election at the 2017 Annual General Meeting, the Supervisory Board has held six meetings in which all Supervisory Board members have participated in full. The meetings took place on May 10, 2017 (constituent meeting), June 21, 2017, September 27, 2017, December 6, 2017, and March 5, 2018 (attendance meeting in Munich). On March 20, 2018, the balance sheet approval meeting was held with Ebner Stolz GmbH & Co. KG, the auditing and tax consulting firm. Throughout the year, the Supervisory Board regularly received detailed information from the Management Board in verbal and written reports on the business situation, the course of business, strategy, and essential measures. Quarterly and semi-annual reports, as well as detailed results of the individual segments, were discussed with the Management Board. The Management Board also continually consulted with the Supervisory Board on issues of fundamental importance to business policy. The Supervisory Board has not formed any committees.

The annual financial statements (HGB) and the consolidated financial statements (IFRS), together with the Management Report of artnet AG and the Group Management Report for the 2017 financial year, were also audited by Ebner Stolz GmbH and Co. KG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, Germany. The Supervisory Board determined that the auditors are independent. The auditors concluded that both the annual financial statements and the consolidated financial statements present an accurate and fair view of the net assets, financial position, and result of operations for the financial year, and issued an unrestricted audit opinion in each case. After completing their assessment, the auditors participated in the Supervisory Board's meeting to discuss the financial statements and report on the results of their audit. The Supervisory Board concurred with their findings.

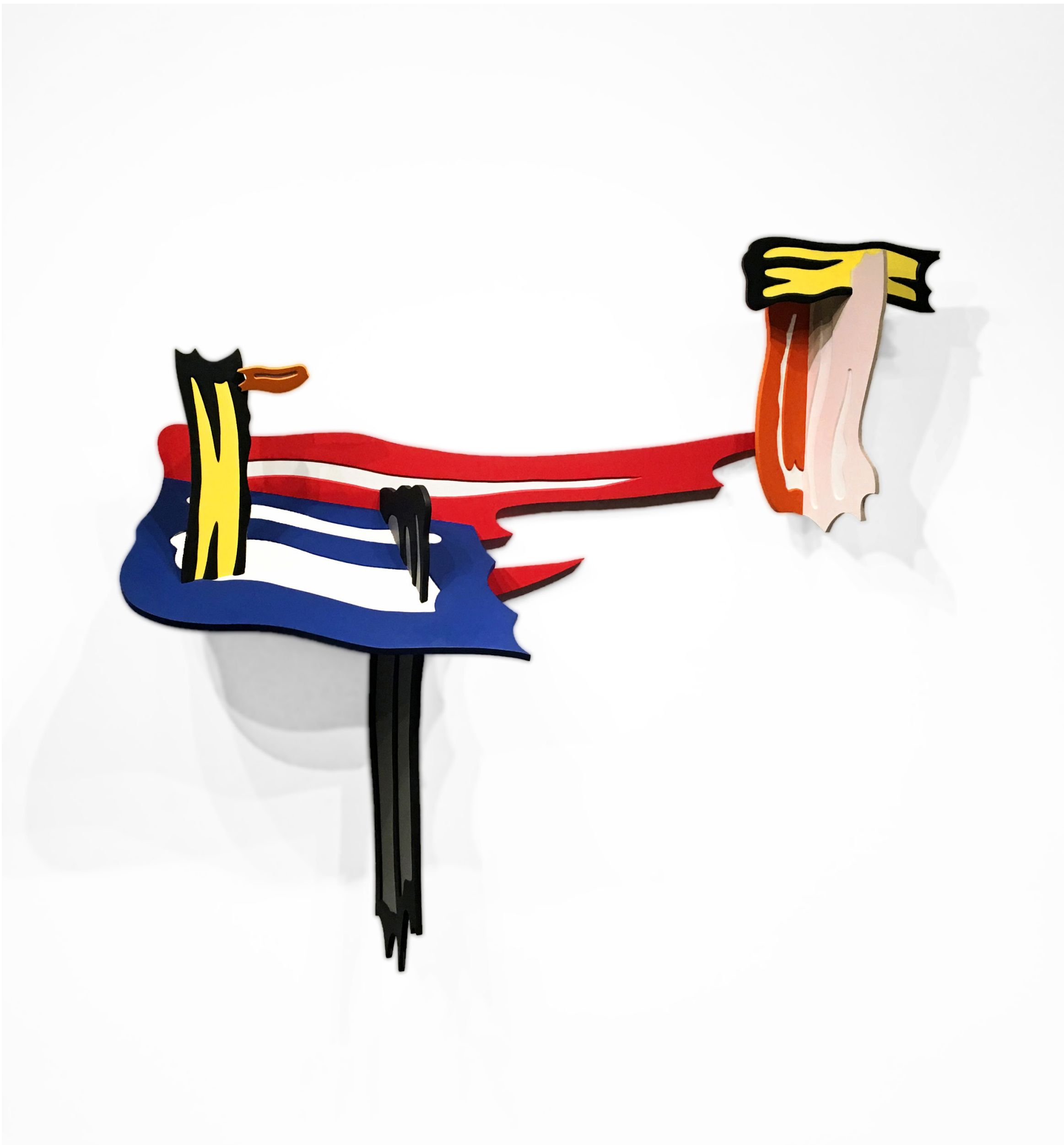
The Supervisory Board focused on the liquidity situation since it had to be monitored because of a significant claim for damages by a photographer, as well as on the progress of artnet News, which is still in the development phase. The performance of the other business segments, along with expenses and personnel policy, were regularly discussed. Also, issues of corporate governance and compliance were reviewed.

The Supervisory Board reviewed the annual financial statements and the consolidated financial statements of artnet AG, as well as the associated management reports. After completing its in-depth review, no objections were raised by the Supervisory Board. The Supervisory Board approved the annual financial statements of artnet AG prepared by the Management Board in the version audited by Ebner Stolz GmbH and Co. KG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, Germany, with a resolution on March 20, 2018. The annual financial statements as of December 31, 2017, were thus adopted. The consolidated financial statements dated as of December 31, 2017, were also approved by the Supervisory Board by way of a resolution on March 20, 2018.

The Supervisory Board would like to thank the Management Board and all of the employees for their work over the past year.

Berlin, March 20, 2018

On behalf of the Supervisory Board
Hans Neuendorf
Chairman of the Supervisory Board, artnet AG



Roy Lichtenstein, *Brushstroke VI* (1986)
Sold on artnet Auctions on November 30, 2017 for $300,000 (with Buyer's Premium)
© Estate of Roy Lichtenstein

Hiroshi Senju, *Day Falls/Night Falls V* (2007)
Sold on artnet Auctions on February 14, 2017 for $186,000 (with Buyer's Premium)
© Hiroshi Senju

Corporate Governance Report

artnet attaches great importance to corporate governance. artnet AG complies with the recommendations of the German Corporate Governance Code in the version dated May 5, 2015, and published in the German Bundesanzeiger on June 12, 2015, as well as the current version dated February 7, 2017, published in the German Bundesanzeiger on April 24, 2017, with the exception of the recommendations in No. 3.8 para. 3, No. 4.1.3 sent. 2 (for the first time with Code dated February 7, 2017), No. 4.2.1 sent. 1, No. 5.1.2 para. 2 sent. 3, No. 5.3.1, No. 5.3.2, No. 5.3.3, and No. 5.4.1 para. 2. The Management and Supervisory boards of artnet AG have adopted the declaration of conformity with the Code detailed at the end of this report. It is published online at artnet.com/investor-relations.

1. Supervisory Board

According to the German Aktiengesetz, artnet AG has a dual-pronged management and control structure, comprising a sole member of the Management Board and a three-person Supervisory Board. Management and control functions are strictly split in the dual-management system. It is not legally permissible to simultaneously work for the Management Board and the Supervisory Board. The tasks and responsibilities of these two bodies are clearly legally defined in each case.

The Supervisory Board monitors and advises the Management Board in conducting business. The Supervisory Board discusses the business growth and forecasts, as well as the strategy and its implementation at regular intervals. In addition, the Supervisory Board adopts the annual financial statements and appoints the members of the Management Board. The Supervisory Board has defined approval requirements by the Supervisory Board for transactions of fundamental importance. These include decisions or activities that have a fundamental impact on the Company's financial position or result of operations. The Management Board provides the Supervisory Board with regular, timely, comprehensive information on all issues of relevance to the Company with regard to forecasting, business growth, risks, and risk management.

The members of the Supervisory Board are independent in their decision-making, and are not subject to instructions or specifications by third parties. In addition, consulting, service, and certain other agreements between artnet and the members of its Supervisory Board must be approved by the Supervisory Board. According to item 5.4.1 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition, which, whilst considering the specifics of the enterprise, take into account the international nature of the enterprise, potential conflicts of interest, age limits for the members of the Supervisory Board, and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.

2. Management Board

The Management Board is responsible for the Company's management. It must uphold the Company's interests and endeavor to increase its sustained enterprise value. It is responsible for the Company's strategic orientation in agreement with the Supervisory Board. The Management Board cooperates closely with the Supervisory Board.

The Management Board ensures that statutory provisions are upheld and that there is suitable risk management and risk control at the Company.

3. Directors' Dealing Transactions and Shareholdings of Managing Directors and Supervisory Board Members

During the past financial year, certain employees of artnet, as authorized by the Management Board, Supervisory Board, and executives who have had access to the Company's information and who are authorized to make material entrepreneurial decisions, made the following purchases or sales of at least 5,000 EUR during the calendar year.

Trade Date	**April 1, 2017**
Name	Dr. Bernhard Heiss
Function	Deputy Chairman of the Supervisory Board
Name of Financial Instrument	Shares
Nature of the Transaction	Acquisition
ISIN / WKN	DE000A1K0375 / A1K037
Price	3.19 EUR
Volume	1,430,000 EUR

On March 20, 2018, the Management Board and Supervisory Board held 690,889, or 12.3%, of the shares or financial instruments based thereupon.

Supervisory Board	
Dr. Bernhard Heiss	689,889 shares
Dr. Kilian Jay von Seldeneck	1,000 shares

4. Relationship with Shareholders

artnet AG reports to its shareholders four times each financial year on business growth and on the Group companies' financial position and result of operations. The Annual General Meeting is held during the first eight months of each financial year. The general meeting resolves, among other things, on issues including the appropriation of profits, the ratification of the Management and Supervisory boards, and the election of the auditor. Changes to the articles of incorporation and capitalization activities are resolved exclusively by the general meeting.

5. Declaration of Corporate Governanace Pursuant to Section 289a and Section 315. Paragraph 5 of the German Commercial Code

Pursuant to Section 161 of the Aktiengesetz (AktG - German Public Limited Companies Act.), the Management Board and Supervisory Board of artnet AG hereby announce that they have complied with the recommendations of the German Corporate Governance Code ("Code") since its last Declaration of Compliance, dated March 20, 2017. The Management Board and Supervisory Board of artnet AG complied with the Code dated May 5, 2015 (published in the official section of the federal gazette on June 12, 2015), as well as the updated Code dated February 7, 2017 (published in the official section of the federal gazette on April 24, 2017) until the present day, with the exception of the following.

1. **Number 3.8, paragraph 3: "A similar deductible must be agreed upon in any D&O policy for the Supervisory Board."**

   artnet AG does not believe that the due care and diligence that the members of its Supervisory Board exercise in discharging their duties could be increased further by agreeing to a deductible. For this reason, artnet AG does not intend to change existing D&O insurance policies that do not provide for such a deductible.

2. **Number 4.1.3, sentence 2 (for the first time in the Code dated February 7, 2017): The Code recommends to set up a Compliance Management System and disclose its main features**

   In fiscal year 2016, Management set up a compliance management system for its employees. The principles of this compliance management system have thus far not yet been disclosed, as Management and the Supervisory Board believe that such disclosure is best disclosed in the Management Report. The Management Report for the 2017 financial year is the first that has been prepared since the new version of the Code and the introduction of the disclosure recommendation. The disclosure will thus be made for the first time in the Management Report for the 2017 financial year.

3. **Number 4.2.1, sentence 1: "The Board of Directors shall be comprised of several people and have a chairman or spokesman."**

   Since its establishment, the Board of Directors of artnet AG has been comprised of one person. By contrast, the Management of the subsidiary Artnet Worldwide Corporation in New York, which is largely responsible for operations within the Group, is comprised of several people. To date, the Company has not increased the size of its Board of Directors for cost reasons.

4. **Number 5.1.2, paragraph 2, sentence 3: "An age limit for members of the Board of Directors shall be specified."**

   artnet AG considers a provision of this nature to be inappropriate because general age limits would unduly limit the Supervisory Board's discretionary powers when selecting members of the Board of Directors.

5. **Number 5.3.1, Number 5.3.2, and Number 5.3.3: In these sections, the Code recommends that the Supervisory Board form an Audit Committee and a Nomination Committee.**

   As the Supervisory Board of artnet AG is comprised of only three members, it does not make sense to form committees.

The tasks envisioned for the Audit Committee and the Nomination Committee are undertaken jointly by the Supervisory Board as a whole.

6. **Number 5.4.1, paragraph 2, sentence 1: The Code recommends to set an age limit for members of the Supervisory Board and a regular limit to Supervisory Board members' term of office.**

   artnet AG considers an age limit to be inappropriate because general age limits and requirements for diversity would unduly limit the shareholders' discretionary powers when selecting members of the Supervisory Board. artnet AG also considers that there is no regular limit to the length of membership of the Supervisory Board in order to benefit from the experience of individual members.

Berlin, March 20, 2018

Jacob Pabst
CEO, artnet AG

Hans Neuendorf
Chairman of the Supervisory Board,
artnet AG

Responsibility Statement

To the best of all knowledge, and in accordance with the applicable reporting principles, the following consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of artnet AG. artnet AG's Management Report includes a fair review of the development and performance of the business, as well as the position of the Group, along with a description of the principal opportunities and risks attributed to the expected Group development.

Berlin, March 20, 2018

Jacob Pabst
CEO, artnet AG

Group Management Report 2017

1. General Information and Business Activities

Business Model and artnet Group Organization

artnet AG is a holding company listed on the "Regulierter Markt" in the Prime Standard segment of the Frankfurt Stock Exchange. artnet AG's principal holding is its wholly owned subsidiary, Artnet Worldwide Corporation, which was formed in 1989 in New York. artnet AG ("artnet" or the "Company") and Artnet Worldwide Corporation ("Artnet Corp.," collectively the "artnet Group" or the "Group") operate under the trade name "artnet."

Artnet Corp. has two wholly owned subsidiaries, artnet UK Ltd. and Jay Art GmbH. Artnet Corp. acquired the online art marketplace Jay Art GmbH ("Jay Art"), and its platform, Artusiast, on June 6, 2017. Jay Art GmbH is in liquidation as of January 30, 2018.

With a monthly average of 2.6 million visitors to its domains, artnet.com, artnet.com/auctions, artnet.de, artnet.fr, and news.artnet.com, artnet offers the world's most comprehensive art market overview. The provision of timely information about artists, galleries, price developments, exhibitions, news, and reviews enables collectors and art professionals to better navigate the art market.

artnet has four segments of operation: the artnet Price Database, artnet Galleries, artnet Auctions, and artnet News.

The Price Database is an online database of more than 11 million color-illustrated auction results from more than 1,700 leading international auction houses. Comprised of the Price Database Fine Art and Design and the Price Database Decorative Art, this product brings price transparency to an otherwise inaccessible market. Subscribers to the database receive access to upcoming auction information, recent auction results, and auction records dating back to 1985, as well as up-to-date and impartial appraisal value of artworks. Subscribers include appraisers, dealers, auctioneers, financiers, and private and government institutions (including the IRS and the FBI). Most importantly, it provides an illustrated "blue book" for private collectors with which to appraise the works they own, and measure opportunities at upcoming auctions or on the dealer market. Dealers and auctioneers also use comparable sales from the Price Database to support the valuation and sale of important works of art.

Market Alerts, a part of the artnet Price Database segment, informs subscribers by email when artworks by their favorite artists come up at auction (including artnet Auctions), are featured in upcoming events, or are offered in the Gallery Network.

artnet Analytics, also part of the artnet Price Database segment, provides and visualizes art market information, and allows users to monitor the performance of artists and art movements, customer-specified groups of artworks, and art categories.

The Gallery Network represents approximately 1,200 of the world's most prestigious galleries from 43 countries. Members of the Gallery Network are indexed by specialty and location, with over 190,000 artworks by 21,000 artists featured on the platform. In addition to all forms of Modern and contemporary fine art, the Gallery Network also offers decorative art and design objects from the 1st century BC to the present. Concurrently, Auction House Partnerships offer auction houses a way to gain international exposure for their sales and drive a high volume of potential buyers directly to their proprietary sites. With a partnership, auction houses have the flexibility to post complete or partial sales on artnet, with the option of linking every lot on artnet back to the same lot in their own online catalogue. All upcoming sales are listed on our Events page, and rank high on both artnet and external search engines, such as Google. Auction House Partnerships also provide reporting, including direct traffic from artnet to the client.

With artnet Auctions, artnet has become a leading transaction platform in the competitive online auctions market. The main advantages for buyers and sellers are the accessible prices and fast turnaround, which can be finalized in just a few weeks, as compared to the six months to a year required by brick-and-mortar auctioneers. artnet Auctions routinely offers works by blue-chip Modern and contemporary artists that sell in the five- and six-figure range.

artnet News is the world's first dedicated 24-hour international art market newswire. This platform informs, engages, and connects members of the art community to the events, trends, and people shaping the market and global art industry through timely articles and insightful opinion pieces. Given the exclusivity of the art world, artnet News attracts a niche audience that is desirable for fashion and luxury brands running advertising campaigns.

Objectives and Strategies

artnet will remain faithful to its founding mission to increase transparency in the art market. Our goal is to maintain our leadership position in the increasingly competitive online art market, where we have operated for more than 29 years. artnet's Management Team is confident that with constant product improvements and innovations, we will continue to strengthen our brand.

Control System

A standardized controlling and reporting system has been put into place for the value-based management of the Group and the management of individual segments. For the individual segments, the Contribution Margins were compared to budgets and numbers from previous years, and determined as key financial data. Earnings before interest and taxes are of major importance to the result of operations. Regarding the financial position, the Group focuses on the availability of liquid assets.

Furthermore, leading economic indicators that may impact the business are constantly monitored and evaluated. For the Gallery Network and the Price Database products, these indicators include the number of contract terminations and renewals, as well as the addition of new contracts. For artnet Auctions, the number of lots available, the number of lots sold, and the average price are the measured indicators. Another essential aspect of the management control system is the ongoing monitoring of traffic to each site, in which important patterns are evaluated and analyzed. artnet evaluates site visits on a daily, weekly, and monthly basis to obtain information about the development of each individual segment. This analysis continues to grow in importance for billing advertising contracts based on traffic performance.

Research and Development

The artnet site forms the foundation of the Group's products. It is of the utmost importance to keep pace with the latest developments in technology, and to develop new products that increase benefits for customers. In this regard, artnet developers use software based on Microsoft technology, which gives flexibility to adapt applications to customers' ever-changing needs. For example, in 2017, the Product Development Team finalized the development of the Gallery Portal (a content management system for Gallery Network members), built new navigation tools for artnet Auctions, and began the process of upgrading the technology infrastructure and the internal tools assisting our content teams. These developments should lead to lower operational costs and increased productivity.

In 2017, non-capitalized product development costs amounted to 3,038k USD (2016: 3,002k USD). The total development costs for the aforementioned major projects, which fulfil the capitalization requirements, amounted to 1,144k USD (953k EUR) of which 874k USD (729k EUR) were capitalized.

2. Economic Report

2.1 Macroeconomic and Industry Conditions

Global Economic Situation

The global economy is undergoing a broad-based, cyclical recovery aided by a rebound in investment and trade. According to preliminary estimates by the World Bank, global GDP growth has increased from 2.4% in 2016 to 3% in 2017, stronger than previously expected.

The economies of the two biggest markets for fine art auctions continued to expand in 2017. In the United States, the economy grew at a rate of 2.3%, after expanding by 1.5% in 2016. Chinese economic growth accelerated for the first time since 2010. China's GDP increased by 6.8%—slightly higher than in 2016—but is expected to gradually slow down in the coming years. In the United Kingdom, the third largest art market in the world, the expansion rate fell from 1.9% in 2016 to 1.7% in 2017, according to the Office of National Statistics, the lowest since 2012. In light of the looming exit from the European Union (Brexit), the OECD concedes a certain economic resilience in the UK.

Art Market Development

While the market for art auctions is typically volatile, its performance was strong in 2017. Globally, fine art sales increased by 21.4% to 14.1 billion compared to the previous year, driven by limited supply and rising prices. The United States was by far the most robust auction market for fine art in 2017. Sales volume grew by nearly 40% to 5.1 billion USD year-over-year, according to the artnet Price Database. By contrast, auction sales in China only increased by 7% to 3.7 billion USD. In the United Kingdom, sales volume increased by 15% to 2.5 billion USD. This surge in the British market follows two years of significant decline—to 3.5 billion USD in 2015 and 2.1 billion USD in 2016. Together, the United States, China, and the United Kingdom continued to account for approximately 80% of total sales volume in the market. The sales volume in the rest of the world increased by 22% to 2.8 billion USD.

The number of works offered at auction globally decreased by 8%, while the sell-through rate remained at 64%. The constrained supply coupled with the high quality of works offered drove prices upward. Works were sold at an average price of 56k USD, 30% higher than in 2016. The increase in the average price was affected by record sales. In November, Leonardo da Vinci's *Salvator Mundi* (circa 1500) sold for 450.3 million USD—a new world record for a painting sold at auction. Jean-Michel Basquiat's *Untitled* (1982) sold for 110.5 million USD in May and set a new world record for an American artist. The sale of Fernand Léger's *Contraste de formes* (1913) sold for 70 million USD in November, which set a new world auction record for the French painter.

2.2 Result of Operations, Financial Position, and Net Assets

artnet generates its revenue primarily in US dollars. The headquarters of artnet's subsidiary, Artnet Corp., is located in New York, the global center of the art market, and thus incurs its expenses mainly in US dollars. Therefore, the Group presents its results in US dollars.

The impact of the USD/EUR currency exchange will be described in a separate section.

Result of Operations

In 2017, the Group's total revenue in the fiscal year totaled to 20,769k USD, an increase of 8% as compared to 2016, and the highest revenue in the Company's history. Revenue met the Management Board's projection of 20,500k USD to 21,500k USD. Income from operations decreased by 43% to 407k USD, as compared to 2016 (713k USD). Net profit totaled to 784k USD, surpassing the projected 300k USD to 500k USD. A contributing factor was the recognition of deferred tax assets in the amount of 367k USD, which was calculated on the basis of expected higher future taxable profits in the United States. While the artnet Price Database and Galleries segments achieved strong positive results overall, artnet News and artnet Auctions have not yet generated a positive contribution to profits.

Revenue Growth

Despite a competitive market and a challenging climate for many clients in the artnet Galleries segment, artnet grew its total revenue in 2017 significantly by 8% or 1,532k USD to 20,769k USD, as compared to 2016 (19,237k USD).

artnet Auctions revenue increased by 26% to 4,040k USD, as compared to 2016 (3,195k USD). This is the highest revenue increase since the inception of artnet Auctions in 2008. 2017 results met the significant sales increase predicted in the previous year. The average price of lots sold in 2017 was 12,029 USD, a significant increase of 46% from 2016 (8,264 USD). The number of lots sold decreased slightly by 4% from 1,430 to 1,373.

In 2017, Gallery Network revenue decreased by 2% or 95k USD to 5,162k USD, as compared to 2016 (5,257k USD), reflecting a slight decline in memberships. This is largely due to increased competition for middle-market dealers from larger galleries and auction houses. Auction House Partnerships revenue increased by 10% or 47k USD to 497k USD in 2017, which helped offset the decline in gallery memberships. Overall, however, the segment did not attain its anticipated slight revenue increase.

Revenue for the Price Database increased by 3% to 7,445k USD in 2017, as compared to the previous year (7,254k USD), largely meeting the predicted moderate revenue growth. The number of subscribers stabilized for the first time since August 2015—the newly redesigned product page for e-commerce sales led to increased purchases of subscriptions. Analytics revenue increased by 28% to 145k USD.

Advertising revenue increased by 17% or 591k USD to 4,122k USD, as compared to 2016 (3,531k USD). This result exceeded the anticipated growth and is mainly due to a 41% increase in advertising revenue for News. The primary driver of this increase in revenue was due to the 75% growth in the luxury goods sector. News contributed 67% to total advertising revenue. The artnet Galleries segment generated 24%, and the artnet Price Database produced 9% of total advertising revenue.

Changes in Costs and Results

Gross profit in 2017 increased slightly by 3% or 349k USD to 12,758k USD, as compared to the previous year (12,409k USD), due to a disproportionate increase in the cost of sales despite revenue growth for artnet Auctions and rising revenue from advertising. The 17% increase in the cost of sales resulted primarily from higher personnel and consulting expenses in the Auction segment.

Sales and marketing expenses increased by 16% or 687k USD to 4,927k USD over 2016 (4,240k USD), mainly due to investments in personnel.

Expenses for product development remained stable at 3,038 USD, as compared to 2016 (3,002k USD). In 2017, more development costs were capitalized from the previous year due to significant projects under development which fulfilled the capitalization requirements—the Gallery Portal, the new navigation tools for artnet Auctions, as well as the fundamental upgrade of the technology infrastructure and internal tools.

General and administrative expenses remained stable at 4,386k USD, as compared to 2016 (4,396k USD). The costs primarily include the salaries of administrative staff and management compensation (1,844k USD), rent and ancillary rental costs (1,212k USD), legal and consulting fees, as well as travel expenses.

Development of Segments

The Group reports on the operating segments the same way it reports this information internally to the Management and Supervisory Boards.

Segment reporting is based on a multi-level Contribution Margin calculation. Management controls the individual segments based on the Contribution Margin II (CM II equals revenue minus direct and indirect variable costs). Therefore, it will be presented below as a segment result. Non-direct allocable expenses are mainly allocated to reportable segments based on the number of employees and revenue per reportable segment. The segment reporting is presented in US dollars only, in accordance with internal communication policy. In January 2017, the process of allocating indirect marketing and bad debt reserve was changed to improve the segment reporting. To have a fair comparison between 2017 and 2016, we adjusted the 2016 figures to include these changes.

The artnet Price Database and Galleries segments both generated strong positive CM II in 2017, despite a decrease compared to 2016. For artnet Galleries, the CM II decreased by 16% to 2,996k USD, which is mainly due to declining advertising and subscription revenue, as well as an increase in sales expenses. For the artnet Price Database, the CM II decreased by 8% to 4,313k USD due to an increase in personnel and sales expenses.

The CM II for the artnet News segment strongly improved by 99% as a result of higher advertising revenue, but remained slightly negative with -8k USD. In 2016, News had generated a CM II of -601k USD, while artnet Auctions generated a higher negative CM II of -199k USD, as compared to the previous year (-140k USD). artnet Auctions reported the highest revenue increase since 2008, but the outcome was offset sharply by increased personnel costs for further recruitment of highly qualified specialists.

Group Profit or Loss

Operating income in 2017 decreased by 43% to 407k USD, as compared to the previous year (713k USD). In 2017, the recruitment of several executives and other highly skilled personnel, specifically in sales, laid the foundation for future growth. The cost of sales increased by 17% to 8,010k USD (2016: 6,828k USD), mainly as a result of an increase in personnel for Analytics and artnet Auctions. Operating expenses increased by 6% to 12,351k USD (2016: 11,696k USD), primarily due to additional staff in sales and marketing.

Net profit in 2017 increased by 12% to 784k USD, as compared to the previous year of 701k USD. This increase is due to the additional recognition of deferred tax assets in the amount of 367k USD, which were calculated on the basis of expected higher future taxable profits in the United States. The Group result was also positively influenced by foreign currency gains of 146k USD (2016: -122k USD).

Currency Conversion and Profit Situation in Euros

Currency conversion in the consolidated statement of comprehensive income is based on the average exchange rate for the period from January 1 to December 31, 2017. Throughout 2017, the average exchange rate was 0.887 USD/EUR, as compared to 0.904 USD/EUR during the 2016 fiscal year. Currency conversion for the balance sheet is based on the exchange rate at the end of the financial year. As of December 31, 2017, the rate was 0.833 USD/EUR, as compared to 0.950 USD/EUR on December 31, 2016.

artnet is subject to these exchange rate fluctuations since it invoices in euros, US dollars, and British pounds, but conducts most of its business in the United States. In 2017, the Group generated approximately 16% (2016: 20%) of its revenue in euros and approximately 8% (2016: 8%) in British pounds.

Because of the growth of the products and of the average exchange price in 2017, the profitability of the Group in euros is affected significantly by foreign currency exchange effects. As a result, the Group's revenue in euros increased only by 6% from 17,386k EUR in 2016 to 18,426k EUR in 2017.

Gross profit of sales, when reported in euros, increased by 1% or 104k EUR to 11,319k EUR. When stated in US dollars, it rose by 3% or 349k USD to 12,758k USD. The Group thus generated a positive operating profit of 361k EUR, as compared to an operating profit of 644k EUR from the previous year, due to an increase in sales expenses. In 2017, net profit in euros amounted to 695k EUR (2016: 633k EUR).

Financial Position

In 2017, operating cash flow increased by 23% to 1,212k USD, as compared to 989k USD from the previous year. The increase is mainly due to the rise of accrued expenses (deferred liabilities) by 575k USD and partly offset by a decrease in accounts receivable of 105k USD (gross, without considering bad-debt provisions), as well as other assets in the amount of 121k USD.

In 2017, cash outflow from investing activities amounted to 1,022k USD, a significant increase as compared to the previous year (2016: 508k USD). This increase is due to notably accelerated investments in intangible assets relating to the development of the Gallery Portal, new navigation tools for artnet Auctions, and the upgrade of the technology infrastructure and internal tools.

The 2017 cash outflow from financing activities decreased to 54k USD, as compared to 393k USD in the previous year since a shareholder loan was repaid entirely in 2016. Moreover, the repayment of finance lease liabilities decreased from 124k USD to 54k USD as several leasing contracts expired.

Cash and cash equivalents increased by approximately 20% or 217k USD to 1,327k USD as of December 31, 2017 (December 31, 2016: 1,110k USD).

In euros, the changes in cash flow from operating, investing, and financing activities vary from the US-dollar figure. Because of the increase in the value of both the euro and British pound against the US dollar from December 31, 2016 to December 31, 2017, cash and cash equivalents increased by 81k USD. In euros, the adverse currency effect amounts to -57k EUR since the holdings in US dollars depreciated. Therefore, the liquidity portfolio of the Group increased by only 5% to 1,106k EUR as of December 31, 2017 (December 31, 2016: 1,055k EUR).

The cash investment policy for the Group is conservative and is used solely for short-term investments, allowing all cash to be liquid and available. As of December 31, 2017, the liquidity per share totaled 0.24 USD (0.20 EUR) based on an average of 5,552,986 outstanding shares, as compared to 0.20 USD (0.19 EUR) on December 31, 2016.

Financial Status

Consolidated total assets amounted to 6,902k USD on December 31, 2017, as compared to 5,812k USD on December 31, 2016, representing an increase of 19%. This increase is mainly the result from an increase in intangible assets, in cash and cash equivalents, and deferred tax assets.

The Group's non-current assets are primarily held in US dollars. Fixed assets, which are comprised of intangible and tangible assets, increased by 575k USD to 1,951k USD. This increase is mainly due to the capitalization of intangible assets in the amount of 874k USD relating to the development of the Gallery Portal, new navigation tools for artnet Auctions, and the upgrade of the technology infrastructure and internal tools.

Accounts receivable decreased by 191k USD to 1,458k USD at the reporting date, mainly due to efforts to collect funds from clients in the most effective and efficient matter.

The deferred tax assets, in particular those for anticipated future tax benefits coming from tax losses, carried forward for Artnet Corp. have increased by 36% or 317k USD to 1,201k USD. In 2016, carried-forward losses have benefitted partially from the taxable profit of the subsidiary. Therefore, the value of this balance sheet item has been confirmed. Since an ongoing increase of taxable profits of Artnet Corp. is assumed for future years, the valuation of deferred tax assets increased despite the lowered US tax rate which resulted from a tax reform taking effect before the end of the year.

Total current liabilities and provisions increased by 645k USD to 4,614k USD (2016: 3,969k USD). This increase is mainly attributable to significantly increased deferred debt for performance-related compensation of employees, as well as to currency-related debt items denominated in euros. Following a decrease in accounts receivable, deferred revenue decreased from 1,938k USD as of December 31, 2016, to 1,826k USD as of December 31, 2017.

Meanwhile, long-term liabilities in the reporting year decreased by 15% to 253k USD as of December 31, 2017. This decrease was mainly due to the orderly dissolution of the accrual item for the rent incentive.

The Group's consolidated equity increased to 2,035k USD as of December 31, 2017 (December 31, 2016: 1,546k USD). This lower increase in equity, when compared to the consolidated net income, is attributable to adverse foreign currency effects of 295k USD which are not recognized in the income statement.

The Price Database constitutes an intangible asset that has been developed by the gathering of auction information, with results dating back to 1985. This valuable asset to the Group cannot be attributed to earnings on the balance sheet due to accounting rules. However, it remains a crucial part of the business and is a secret reserve. The balance sheet assets would be substantially increased if this recognition were allowed by law.

Statement by the Management Board About Result of Operations, Financial Position, and Financial Status

The Management Board is very satisfied with the results achieved in the 2017 reporting year. Despite a sometimes challenging market and strong competitive climate, artnet significantly increased its revenue and remained profitable. The success of artnet News and artnet Auctions is particularly noteworthy as both products achieved double-digit growth, confirming that Management followed a successful strategy and that there is a market need for these services. A 3% increase in the artnet Price Database segment and an increase in search queries demonstrated the continuing importance of high-quality and reliable data for the art market. At the same time, essential developments were completed, such as the Gallery Portal in September 2017, which modernized the Gallery Network and made it much more efficient for its members. A new navigation for artnet Auctions was also released to improve the buying and selling process, and to better serve user intent. The investment to improve the technology infrastructure has also been initiated and will be decisive for the future development and positioning of artnet. Despite a high level of investments, the liquidity stock increased and the equity base was further strengthened by the net income for the year. artnet has largely complied with its own forecast for the financial year and completed a major development step in the 2017 financial year.

Non-Financial Performance Indicators

Employees

As of December 31, 2017, the Group employed 117 full-time staff members (December 31, 2016: 113). Additionally, five part-time employees worked for the Group in 2017, as compared to two in 2016. In sales and other departments, the Group employed six freelancers, as compared to nine in the previous year.

Personnel expenses (excluding social insurance contributions) totaled to 13,504k USD, as compared to 12,523k USD in the previous year. While personnel expenses as part of costs of sales and sales and marketing increased, personnel expenses decreased in general administrative costs and product development.

Other Non-Financial Performance Indicators

The quality of our services and the associated satisfaction of Gallery Network and Price Database clients are of the utmost importance to our business. Feedback and reasons for contract cancelations are evaluated for quality assurance purposes through customer surveys, allowing us to respond to future cancelations in a timely and targeted manner.

For the artnet Galleries segment, monitoring and controlling indicators include the number of contract cancelations and the number of new contracts sold. In 2017, cancelations decreased by approximately 2%, representing six galleries. The number of new contracts fell by 24% to 195 (2016: 255). Overall, the number of gallery members decreased by 62 to 1,215 members. While the net loss of 62 galleries is larger than the 13 galleries lost in 2016, it constitutes an improvement compared to the previous years: 90 in 2015 and 112 in 2014. In addition, the Group documents the number of inquiries sent to galleries and auction houses through its website.

For the artnet Price Database segment, the number of subscribers and searches are closely monitored. In 2017, the amount of subscribers remained stable, while the number of searches increased by 4%, as compared to 2016. The amount of auction results added to the database is also monitored, although this depends on the number of auctions and lots offered worldwide. In 2017, the Price Database exceeded 11 million auction results.

The average transaction value for artnet Auctions in 2017 significantly increased by 46% over 2016. artnet achieved three times more transactions above $75,000 compared to the prior year, demonstrating that collectors are increasingly more comfortable purchasing art online at higher price points. In addition, the sell-through rate by both volume and value improved by 10 percentage points, indicating growing demand and more efficient operations. The number of lots sold decreased slightly by 4% from to 1,373 (2016: 1,430).

To measure the performance of advertising campaigns, indicators such as CPM (price for 1,000 impressions), impressions (the frequency with which an ad is fetched from its source), and visibility (the probability an ad is viewed) are evaluated.

The ongoing monitoring of site traffic is of the greatest importance to artnet as it provides all its services online, with different figures for the existing domains recorded and evaluated daily. In 2017, the total number of visitors increased significantly by 18.2% with an average of 2.6 million visitors per month, as compared to the previous year.

3. Disclosure of Takeover Provisions

Composition of Capital Stock

artnet AG's fully paid-in capital stock, as of December 31, 2017, totaled an unchanged 5,631,067 EUR, and comprises 5,631,067 no-par value-bearer shares based on a notional common stock of 1.00 EUR per share. These are registered shares.

As of December 31, 2017, the Group held 78,081 treasury shares, which remains unchanged from the previous year. For further reference, see the notes to the consolidated financial statements.

Voting Limits or Assignment Limits

There are no restrictions on voting rights or transfer of these shares.

Direct or Indirect Shareholdings which Exceed 10% of Voting Rights

Direct or indirect shareholdings which exceed 10% of voting rights for artnet AG are held by Galerie Neuendorf AG, Berlin, at 27.06%, and Dr. Bernhard Heiss, Munich, at 12.25%, as of December 31, 2017.

Preferred Shares

There are no preferred shares.

Voting Rights Monitoring in the Event of Employee Holdings

Any employee with holdings in artnet AG is obliged to exercise his or her control rights directly.

Appointment and Dismissal of Members of the Executive Board, Amendments to the Articles of Incorporation

Members of the Supervisory Board are appointed and dismissed according to §§ 84, 85 of the German Stock Corporation Act (AktG). The amendments to the Articles of Incorporation were made in accordance with §§ 133, 179 AktG.

Authorization of the Executive Board to Issue and Repurchase Shares

Authorized Capital

The Shareholder's Meeting of artnet AG on July 16, 2014 authorized the Management Board, with the approval of the Supervisory Board, to increase the subscribed capital of 2,800,000 new bearer shares by up to 2,800k EUR in exchange for cash contributions, or contributions in kind (Authorized Capital 2014) until July 15, 2019. No shares were issued from the authorized capital so far.

Conditional Capital

As per the resolution of the Shareholder's Meeting on July 15, 2009, the registered capital was increased by 560k EUR by the issuance of up to 560,000 new no-par value shares (conditional capital 2009/I) to the Company's directors and management team members of affiliated companies and employees of artnet AG. The authorized conditional capital 2009/I expired 2014. No shares have been issued from it.

In 2009, 2010, and 2014, 398,907 stock options were granted to the Management and employees of the subsidiary Artnet Corp. from the 2009 stock option program. As of now, none of these options were or could have been exercised.

4. Information on Management Practices Applied (§ 289f HGB / § 315d HGB)

The current Corporate Governance Report (§ 289f HGB / § 315d HGB) can be accessed on the Company's site at artnet.com/investor-relations. In addition to the Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 of the Aktiengesetz (German Public Limited Companies Act), the report contains statements about corporate governance practices and a description of the operating principles of the Management Board and the Supervisory Board. artnet AG thus aims to keep the account of its corporate governance clear and concise. The Corporate Governance Report is not subject to the audit of the annual financial statements by the independent auditors.

5. Remuneration Report

This remuneration report is based on the recommendations of the German Corporate Governance Code. It summarizes the principles that apply to defining the remuneration for artnet AG's Management Board and explains the amount and structure of the Management Board's remuneration. In addition, it describes the principles behind, and the amount of, the remuneration of the Supervisory Board. Furthermore, the remuneration report includes information that also forms part of the notes to the consolidated financial statements according to § 314 of the German Commercial Code (HGB), or the Group Management according to § 315 of the German Commercial Code (HGB).

5.1 Remuneration of the Management Board

Granted Remuneration, CEO	**Jacob Pabst**			
EUR	**2016**	**2017**		
	Granted	**Granted**	**(Min)**	**(Max)**
Fixed Basic Remuneration	316,333	321,609	321,609	321,609
Remuneration in Kind	12,040	12,330	12,330	12,330
Total	**328,373**	**333,939**	**333,939**	**333,939**
Short-Term Remuneration	–	33,270	–	321,609
Benefits	–	–	–	–
Total Remuneration	**328,373**	**367,209**	**333,939**	**655,548**

Paid, CEO	**Jacob Pabst**	
EUR	**2016**	**2017**
Fixed Basic Remuneration	316,333	321,609
Remuneration in Kind	12,040	12,330
Total	**328,373**	**333,939**
Short-Term Remuneration	–	–
Benefits	–	–
Total Remuneration	**328,373**	**333,939**

The Supervisory Board is responsible for setting the remuneration of the Management Board. Setting remuneration for artnet AG's Management Board is based on the Company's size and activities, its economic and financial position, and the amount and structure of remuneration for the Management Board at comparable companies. Remuneration must be set such that it is competitive in the international market for highly qualified executives, and that it offers an incentive for successful work.

Jacob Pabst receives no remuneration from artnet AG. The payment of his duties as a board member of artnet AG is compensated with the remuneration for his role as CEO of Artnet Corp. Both the management contract with artnet AG and the employment contract with Artnet Corp. were extended on June 21, 2017 to a two-year term from July 1, 2017 to July 1, 2019. Besides the fixed basic remuneration, the terms of the contracts remain the same.

Remuneration for Jacob Pabst as a board member, comprised of a fixed basic remuneration and a yearly variable compensation component (short-term performance-related incentive (STI)), is described below:

Fixed basic remuneration: In the 2017 fiscal year, the fixed cash remuneration of the Management Board member, Jacob Pabst, totaled 322k EUR (363k USD). In the previous year, the fixed basic remuneration totaled to 316k EUR (350k USD) until June 30, 2017. As of July 1, 2017, the fixed basic remuneration totals to 375k USD.

Variable compensation component (STI): In addition to the fixed basic remuneration, the Management Board receives a variable compensation component. The amount of this component is at the discretion of the Supervisory Board. The basis for calculation of this component is the consolidated financial statement of the year, in which the variable compensation component is paid. The variable remuneration component may not exceed the fixed basic remuneration. The variable remuneration component is dependent on one third of each of the following objectives:

- 1/3 of the achievement of the budgeted net income and cash flow
- 1/3 of the share price performance of artnet AG
- 1/3 of the discretion of the Supervisory Board, based, in particular, on long-term goals, such as the introduction of new products or new business areas, expected profitability in the future, and significant transactions

The variable remuneration component will be, as far as granted, paid in 10 equal monthly installments, starting in the month in which it was granted.

For 2017, the Supervisory Board has set a variable remuneration component of 33k EUR (37.5k USD).

For benefits, Artnet Corp. continues to assume the costs for private health insurance of 450 EUR per month, as well as the premium payment for the Company's group medical plan.

5.2 Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is defined by the General Meeting based on a proposal by the Management Board and the Supervisory Board. It is regulated in the articles of incorporation.

Remuneration of the Supervisory Board is based on the Company's size, the tasks and responsibilities of the members of the Supervisory Board, and the Company's economic situation and performance.

The members of the Supervisory Board receive a fixed remuneration every year. Unchanged from the previous year, the chairman of the Supervisory Board receives 50,000 EUR, the deputy chairman receives 37,500 EUR, and the third member of the Supervisory Board receives 25,000 EUR.

6. Risk and Opportunity Report

artnet operates in a challenging niche market. To monitor the constantly changing landscape, artnet permanently observes internal and external risks, which are outlined in the following Risk and Opportunity Report, if relevant.

6.1 Risk Report

Risk Management

The Group has introduced a risk management system to identify and constantly monitor operating and financial risks. This system, which aims to alleviate the impact of any unforeseen events, is largely comprised of the following four components:

- Finance, which monitors the actual results of business activities, provides forecast/actual comparisons as part of monthly reporting, and provides comparisons with the previous year
- IT infrastructure, which ensures and monitors the 24/7 availability and functionality of the website
- Project management, which monitors the development and progress of the individual technology projects
- Ongoing traffic monitoring, which evaluates and tracks the key areas of web traffic

The risk management system ensures that critical information is passed on to the Group's Management Board directly and in a timely manner.

Early Warning System Ensures Identification of Potential Risks

As a rule, in order to measure, monitor, and control its business growth and risks, the Group uses a management and control system which is mostly based on financial accounting data. The risk inventory, which is developed based on this document, lists the key existing threats and allocates levels of responsibility within the Group. Existing risk potential is observed on an ongoing basis; suitable activities to limit risks are put in place whenever possible. The risk management system includes regular internal reporting on the course of business, current market developments, and customer relationships, as well as a Group-wide budget process which deals with operating risks and changes in the business climate. This process is supported by regular analysis of the market and competition.

Dealing with Major Potential Risks

Operative management is directly responsible for the early recognition, control, and communication of risks. As a result, the Group can react to potential risks in a comprehensive and targeted manner. Risk policy is geared to generate sustained growth and secure enterprise value over the long term, and to avoid any reasonable risks.

Compliance Management System

artnet encourages and requires open communication and a trusting interaction with and among all employees, customers, and business partners. In addition to the direct exchange with supervisors, employees of the Group can provide anonymous and protected information about possible legal violations and other misconduct at any time by means of a whistleblower system to which management can react promptly and appropriately.

Accounting-Related Internal Control System with Regard to the Group Accounting Process

The Management Board has set up an internal control system for the wide range of organizational, technical, and economic workflows in the Group. A key competency is the principle of the segregation of duties, which aims to ensure that executive (e.g., sales), recording (e.g., accounting), and administrative (e.g., IT administration) departments are not united in the same place. The principle of dual control ensures that no material workflows go uncontrolled.

Expectations of the Management Board are defined and documented by regular, targeted agreements.

The preparation of the consolidated financial statement was made by the finance director of Artnet Corp., who has many years of experience and special expertise in consolidation issues.

Risks

Risk Assessment

The Group monitors and analyzes various types of risks, categorizing them as external, operational, legal, financial, and other risks. The internal risk monitoring system defines and evaluates both segment-related, as well as company-wide risks. The assessment of risks considers two main factors: the probability of occurrence and the potential maximum amount of damages. The probability of occurrence is then defined as high, medium, or low. Potential damages could be revenue losses or costs, as in the case of legal risks. Where possible, the Group assesses the maximum amount of damages for each risk. In determining operational risks, the maximum amount of damages is weighted against probability and potential frequency of occurrence. Competitive risks are rated on a scale of one to five, one being a risk of minor significance, and five being a specific threat requiring immediate action.

The Group has identified the following risks:

External Risks

Art Market Economic Trends

The Group is subject to fluctuations in the art market. Changing conditions in local and global economies affect the art market, but it is unclear to what extent these developments will shape the market in the future. In 2016, global auction sales decreased significantly. In 2017, one of the Group's competitors in the online auction space declared bankruptcy, exemplifying the growing and fierce competition in the art auction market. The expected and gradual increase of interest rates in the United States for 2018 adds uncertainty since the possible effect of higher rates on prices and demand for art is unclear. Also, recent funding by competitors could trigger increased competition and add pressure on the Group's market share.

Potential downside risks to the global economy include financial stress, protectionism, and geopolitical tensions. Financial market volatility has been unusually low in 2017, and asset prices have highly appreciated, potentially suggesting a sharp reversal and market turbulence. The long-term effects of the recent tax reform implemented in the United States are uncertain. Corporate and personal income tax cuts are intended to spur business investments and job creation. Should the tax cuts widen the wealth gap, the economy might slow down in the long run, according to the OECD. Additionally, the tax cuts could also provide art buyers with more discretionary income. Art, however, is only one of many investment vehicles attracting investors.

Operating Risks

IT System Infrastructure

Interruptions to the website's functions can reduce the Group's ongoing revenue and profit, and could also impact future revenue and earnings. Frequent or sustained interruptions to service could cause existing or prospective users to consider the Group's systems as unreliable, thus having a negative impact on the Group's overall reputation. Any such interruption increases the work required by the IT Department, which, in turn, leads to delays in launching new functions and services. Even though the Group's systems have been designed so that periods of interruption in the event of a power outage or catastrophe are low, they remain susceptible to damage or disruption from flooding, fire, and or interruptions to services due to terrorist attacks, computer viruses, or other unforeseen events. The Group's web servers are located in an extremely secure off-site facility.

Product Development

The Group's future success depends on how fast it can adjust to technological changes and new industry standards. The Management Board intends to further improve the functionality and reliability of the website, and to launch new products that benefit both existing and potential clients. The Group observes market trends and focuses on product development, as a result, it has reinforced and strengthened the Development Team over the past few years.

There is always the risk that product innovations and further product developments will not be immediately accepted by users, and that the associated goals will not be met. In the event that revenue is lower than anticipated, the Group's result of operations would be impacted by increasing costs of product development and higher ongoing costs.

There are also risks in product development, due to a growing number of startups entering the market, many of which are directly competing with one or more of our product segments.

Traffic to the Website

Web traffic is of key importance to the Group, and a downturn in visitor numbers could lead to reduced revenue for all products. The Group monitors traffic on a daily, weekly, and monthly basis in order to ensure that traffic meets expectations. To further increase visits to the site, the Group requires a larger financial commitment to advertising and marketing. Whenever possible, the Group monitors visitor numbers and revenue generated through the site, and compares these numbers with the corresponding advertising and marketing expenses in order to assess the success of advertising and marketing activities.

Legal Risks

Trademark Laws

artnet protects itself through the trademark of the artnet name in the Group's key market areas, in particular, the United States, Germany, France, and the European Union. Trademark infringements are costly and are subject to review from national authorities, which can result in a negative outcome for the Group. Additionally, the Group must defend itself against copyright and other legal claims, which could also result in a negative outcome for the Group.

Copyright Laws

The Group uses a number of photographs of decorative art objects in its database, and as an international company, is exposed to different regulations for copyright protection. For this reason, artnet agreed on a license contract with the Copyright Collective Bild-Kunst in Germany and the Artist Rights Society in the United States. However, these contracts do not cover all rights for all images used in the database. In response to a photographer who sued artnet in both French and German courts over his rights as the creator of photographs taken for an auction catalogue, and which were subsequently used in the Price Database Decorative Art, artnet will take legal action and all necessary contractual steps to avoid future lawsuits. It cannot be ruled out that other photographers may file similar lawsuits. This could have a significant impact on the Group's net assets, financial position, and result of operations.

Protection of Customer Data

The Group stores customer data in compliance with all current laws and regulations. However, if a third party were to succeed in bypassing the Group's security measures and obtain customer information, the Group could be liable for any damages incurred.

Should the Group violate its privacy policy, it could become the subject of investigation, data protection orders, and customer claims for damages, resulting in possible criminal or regulatory actions. In addition to financial charges from potential lawsuits and damage claims, the reputation of the Company could suffer. The Group could potentially lose existing clients and registered users while making it harder to acquire new customers and new users.

To legally protect itself in the best possible way, the Group collaborates with privacy experts both locally and abroad and continually responds to changes in data protection law. The Group participates in and has certified its compliance with the EU-US Privacy Shield Framework and the Swiss-US Privacy Shield Framework. We are committed to subjecting all personal data received from European Union (EU) member countries to align with the General Data Protection Regulations (GDPR) that take effect in May 2018, by implementing all necessary compliance and security measures to our operations.

Financial Risk

Foreign Currency Fluctuation, Default, and Liquidity Risks

artnet conducts a portion of its business outside of the United States, thereby facing exposure to adverse movements in currency exchange rates. As exchange rates are subject to fluctuation, revenue and operating expenses may differ substantially from expectations. The Group does not currently engage in exchange rate hedging against these risks. Instead, the Group accepts payments from customers in euros and British pounds, and pays their suppliers in Europe in their respective currencies. This reduces the exchange rate risks.

Due to the intragroup loan in which the parent company, artnet AG based in the Eurozone, is financed by its US-based subsidiary, as well due to its euro- and British pound-nominated bank accounts, Artnet Corp., faces a currency exchange risk. Currency translation adjustments arising from the valuation of intercompany long-term loan receivables, which qualify as part of a net investment, are not reflected in the profit or loss of the Group. The Board desists from a hedge of this foreign currency risk due to reasons of efficiency.

The Group has no significant concentration of default risk for financial assets because the exposure is averaged over a large number of customers, including individuals and entities dealing in the fine art market. Nevertheless, a global economic downturn could negatively influence the solvency of the Group's customers, leading to an increase in the average credit period, or, at worst, leading to an increase in customer default. This would negatively affect the Group's earnings, as well as its financial position. The Group attempts to counter such risks by insisting on upfront payments from customers whenever possible.

Liquidity risk represents the instance where the Group might be unable to meet deadlines to make due payments. The Group is settling its current costs and investments from existing cash on hand and cash flow operations, and has no lines of credit. As of December 31, 2017, the reporting date, cash and cash equivalents in US dollars increased by 20%, as compared to the previous year. In euros, cash and cash equivalents rose by 5%.

The March 2015 ruling by the French Court of Appeal, in connection to the violation of copyright by a photographer for high-indemnity payments in the amount of 800k EUR, could lead to a significant liquidity risk if the amount is required to be paid on short notice. The judgment will become final at the end of March 2018, unless the Group makes a payment equal to the amount of damages to a court-determined account, in order to initiate a re-examination of the judgment. The formed provision covers the maximum risk of this trial, including interest. The Group continuously evaluates all options to prevent the enforcement of the ruling in Germany and the United States. Aside from all legal remedies, the Group continues its efforts to achieve a settlement with the photographer. Considering all available options, the Group does not believe a full payment of damages will be required in 2018.

The interest rate risks can be considered insignificant since the Group's interest-bearing debt is only in the form of finance leases.

Other Risks

Key Employees

The market for skilled and motivated managers is highly competitive. As a result of the Group's relatively small size, the loss of employees in key positions could have a significant impact on the Company's day-to-day operations.

There is always the possibility that the above list does not outline all risks to which the Group is exposed. Unrecognized and unreported risks could arise, negatively impacting business performance. The Group continues to monitor its environment and review the effectiveness of the risk management systems. Despite continuous adjustments to the risk management system, it is not possible to entirely quantify the probability of all risks or their financial impact.

6.2 Opportunities

The online art market is highly dynamic, offering constant opportunities for the Group. The small size of the company and short decision-making processes allow the Group to respond nimbly to changing environments and reversing trends while weighing potential risks. Opportunities may arise from internal or external environmental changes.

The trend of the international art market is closely linked to the economies of industrialized countries. Stronger than expected economic growth in the developed world may, therefore, affect our business positively.

The market for e-commerce is growing. This includes the online art market, where participants have embraced online-only sales as an efficient and economical method to buy and sell high-priced fine art. artnet Auctions continues to achieve high prices, which suggests ongoing business opportunities in this dynamic segment.

artnet News has become the leading online platform for news coverage and opinion writing for the art world. Continuously growing web traffic could lead to increased advertising revenue.

The Company's success depends, to a large extent, on our ability to provide clients with innovative solutions and improved products and services. Thus, we continue to increase the effectiveness of our products and to develop our platform. Of course, if we are able to progress faster than currently expected, we would be able to implement product improvements more quickly, which could have a positive effect on our revenue and earnings as well.

Statement from the Management Board Concerning Risks and Opportunities

As compared to 2016, no significant changes have been added to the risks and opportunities in 2017. artnet has prevailed in a sometimes challenging climate amid an intensely competitive market. As a result of another significant increase in equity and the further reduction in debt, the Group is significantly more robust and stable for potential crisis. The provision made concerning the lawsuit with a photographer could lead to a significant liquidity risk, if the damages were to be paid at once in full. Management continues to believe that a full payment of damages can be avoided in the short- and mid-term.

7. Subsequent Report

There were no material events from December 31, 2017 to March 20, 2018, that could have a significant impact on the Group's financial position or result of operations.

8. Outlook

The following report describes forecasts made by the Management Board regarding the future performance of artnet's segments and general business. The actual business performance may differ positively or negatively from these estimates due to risks and opportunities, as described in the Risk and Opportunity Report.

The World Bank expects global growth to edge up to 3.1% in 2018 as the cyclical momentum continues, and then to moderate to an average of 3% in 2019–2020. Growth in advanced economies, including the United States, is projected to slow partly from gradually rising interest rates. Growth in the United States alone is expected to reach 2.5% in 2018 and then to moderate to an average of 2.1% in 2019–2020. For the United Kingdom, the OECD predicts much slower economic growth due to the uncertainty caused by the process of exiting from the European Union (Brexit). Rising interest rates could have a negative effect on asset prices, including art.

In 2018, artnet is poised to expand its leading position in a competitive market, taking advantage of the growing momentum of Auctions and News. artnet is also improving its IT infrastructure with the project FALCON. The project is a series of initiatives aimed at reducing maintenance costs for existing products, as well as improving the performance of the Development Team. FALCON will make artnet faster, more flexible, and more efficient. Therefore, Management, expects growth in all business areas.

Auctions is thriving and continues to be one of artnet's most significant revenue drivers. The art market has—after initial hesitation—embraced online-only sales as an efficient and economical method to buy and sell fine art. artnet Auctions will play an even more critical role in the art world as higher-priced artworks become more prevalent. Against this backdrop, Auctions has been innovating its platform to make it even more accessible and intuitive to buy and sell art. As a result, Management, projects significant revenue growth for the product in 2018 and beyond.

artnet News has become the leading online platform for news coverage and opinion writing for the art world. A new editorial strategy focusing on quality and original content resulted in increased web traffic and advertising revenue. Management expects this positive trend to continue and projects strong revenue growth in 2018.

In 2017, the artnet Price Database increased its revenue as a result of higher advertising revenue and rising demand for Analytics. Total searches peaked in 2017, which should lead to further increased revenue in 2018. Considering a stabilizing number of subscribers and higher conversion rates after the redesign of the product page, Management expects the artnet Price Database segment to moderately increase revenue in 2018.

The artnet Galleries segment is poised for a turnaround after the launch of the Gallery Portal in 2017. The well-received content management system gives Gallery Network members the ability to independently manage their inventory, which is expected to increase the number of inquiries and create better-performing SEO. Further significant product innovations are planned for 2018. Management expects the number of memberships to stabilize, and projects a slight increase in revenue for 2018.

Based on the individual expectations for each segment, Management predicts total revenue to increase within a range of 22.0 million USD–23.0 million USD (17.7 million EUR–18.5 million EUR at an estimated exchange rate of 1.24 EUR/USD) in 2018. For income from operations, Management expects an increase in a range of 1.0 million USD–1.5 million USD (0.8 million EUR–1.2 million EUR), due to investments in personnel, sales and marketing, and product development. Management assumes that the considerable investments in its entirety will not lead to significant earnings increases in 2018, but will enable stronger growth in the medium term. For net income, a lower increase is expected as the positive valuation effect from deferred taxes, which occurred in 2017, should not be repeated. Cash and cash equivalents are expected to decrease slightly compared to December 31, 2017.

Berlin, March 20, 2018

Jacob Pabst
CEO, artnet AG

Consolidated Financial Statements as of December 31, 2017

artnet AG Consolidated Balance Sheet

As of December 31, 2017

	Notes No.	12/31/2017 USD	12/31/2016 USD	12/31/2017 EUR	12/31/2016 EUR
Assets					
Current Assets					
Cash and Cash Equivalents	3	1,327,514	1,110,281	1,106,350	1,055,100
Trade Receivables	4	1,458,193	1,649,657	1,215,258	1,567,669
Other Current Assets	5	525,410	404,742	437,877	384,626
Total Current Assets		**3,311,117**	**3,164,680**	**2,759,485**	**3,007,395**
Non-Current Assets					
Property, Plant, and Equipment	6	383,530	531,244	319,634	504,841
Intangible Assets	7	1,567,803	844,925	1,306,607	802,932
Other Non-Current Assets	5	438,328	386,511	365,303	367,301
Deferred Tax Assets	8	1,201,422	884,432	1,001,265	840,476
Total Non-Current Assets		**3,591,083**	**2,647,112**	**2,992,809**	**2,515,550**
Total Assets		**6,902,200**	**5,811,792**	**5,752,294**	**5,522,945**
Equity and Liabilities					
Current Liabilities					
Accounts Payable	9	426,347	367,131	355,318	348,885
Accrued Expenses and Other Liabilities	10	1,268,181	635,993	1,056,902	604,384
Provisions	11	1,073,914	894,454	895,000	850,000
Short-Term Liabilities from Finance Leases	12	19,731	76,735	16,444	72,921
Deferred Revenue	14	1,826,101	1,938,181	1,521,873	1,841,853
Other Short-Term Liabilities	18	–	56,720	–	53,901
Total Current Liabilities		**4,614,274**	**3,969,214**	**3,845,537**	**3,771,944**
Long-Term Liabilities					
Office Rent Amortization	13	238,562	284,351	198,818	270,219
Long-Term Liabilities from Finance Leases	12	14,761	12,112	12,302	11,510
Total Long-Term Liabilities		**253,323**	**296,463**	**211,120**	**281,729**
Total Liabilities		**4,867,597**	**4,265,677**	**4,056,657**	**4,053,673**
Shareholders' Equity					
Common Stock	15	5,941,512	5,941,512	5,631,067	5,631,067
Treasury Stock	15	(269,241)	(269,241)	(264,425)	(264,425)
Additional Paid-In Capital		52,423,972	52,423,972	51,015,723	51,015,723
Accumulated Deficit		(57,353,077)	(58,053,678)	(55,644,205)	(56,277,412)
Current Net Profit		783,756	700,601	695,345	633,207
Foreign Currency Translation		507,681	802,949	262,132	731,112
Total Shareholders' Equity		**2,034,603**	**1,546,115**	**1,695,637**	**1,469,272**
Total Liabilities and Shareholders' Equity		**6,902,200**	**5,811,792**	**5,752,294**	**5,522,945**

artnet AG Consolidated Income Statement

For the Fiscal Year from January 1 to December 31, 2017

	Notes No.	2017 USD	2016 USD	2017 EUR	2016 EUR
Revenue					
Gallery Network		5,162,075	5,256,557	4,579,775	4,750,915
Price Database		7,444,774	7,254,203	6,604,978	6,556,403
Advertising		4,121,895	3,530,506	3,656,931	3,190,898
artnet Auctions		4,040,074	3,195,297	3,584,340	2,887,933
Total Revenue	24	**20,768,818**	**19,236,563**	**18,426,024**	**17,386,149**
Cost of Sales		8,010,425	6,827,662	7,106,822	6,170,892
Gross Profit		**12,758,393**	**12,408,901**	**11,319,202**	**11,215,257**
Operating Expenses					
Sales and Marketing		4,926,971	4,239,966	4,371,192	3,832,113
General and Administrative		4,385,740	4,395,507	3,891,014	3,972,692
Product Development		3,038,350	3,002,293	2,695,614	2,713,495
Non-Cash Compensation	18	–	58,532	–	52,902
Total Operating Expenses		**12,351,061**	**11,696,298**	**10,957,820**	**10,571,202**
Operating Income		**407,332**	**712,603**	**361,382**	**644,055**
Interest Expenses	22	36,363	11,403	32,261	10,306
Interest Income	22	(700)	1,462	(621)	1,321
Other Income/(Expenses)	22	102,182	(122,411)	90,656	(110,636)
Provision for Litigation Risks	22	–	165,965	–	150,000
Earnings Before Taxes		**472,451**	**746,216**	**419,156**	**674,434**
Income Taxes	8	(55,911)	(45,615)	(49,604)	(41,227)
Deferred Tax Benefit/(Expense)	8	367,216	–	325,793	–
Net Profit		**783,756**	**700,601**	**695,345**	**633,207**
Other Comprehensive Income					
OCI Recycled: Differences from Foreign Currency Translation		(295,268)	98,574	(468,980)	151,324
Total Comprehensive Income		**488,488**	**799,175**	**226,365**	**784,531**
Result per Share					
Basic	21	0.14	0.13	0.13	0.12
Diluted	21	0.14	0.13	0.12	0.12

artnet AG Consolidated Statement of Changes in Shareholders Equity (USD)

For the Fiscal Year from January 1 to December 31, 2017

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
Balance as of 12/31/2015	**5,631,067**	**5,941,512**	**(269,241)**	**52,404,326**	**(58,053,678)**	**704,375**	**727,294**
Net Income	–	–	–	–	700,601	98,574	799,175
Remuneration from Stock Options	–	–	–	19,646	–	–	19,646
Balance as of 12/31/2016	**5,631,067**	**5,941,512**	**(269,241)**	**52,423,972**	**(57,353,077)**	**802,949**	**1,546,115**
Net Income	–	–	–	–	783,756	(295,268)	488,488
Balance as of 12/31/2017	**5,631,067**	**5,941,512**	**(269,241)**	**52,423,972**	**(56,569,321)**	**507,681**	**2,034,603**

artnet AG Consolidated Statement of Changes in Shareholders Equity (EUR)

For the Fiscal Year from January 1 to December 31, 2017

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
Balance as of 12/31/2015	**5,631,067**	**5,631,067**	**(264,425)**	**50,997,910**	**(56,277,412)**	**579,788**	**666,928**
Net Income	–	–	–	–	633,207	151,324	784,531
Remuneration from Stock Options	–	–	–	17,813	–	–	17,813
Balance as of 12/31/2016	**5,631,067**	**5,631,067**	**(264,425)**	**51,015,723**	**(55,644,205)**	**731,112**	**1,469,272**
Net Income	–	–	–	–	695,345	(468,980)	226,365
Balance as of 12/31/2017	**5,631,067**	**5,631,067**	**(264,425)**	**51,015,723**	**(54,948,860)**	**262,132**	**1,695,637**

artnet AG Consolidated Statement of Cash Flows

For the Fiscal Year/Period from January 1 to December 31, 2017

	Notes No.	2017 USD	2016 USD	2017 EUR	2016 EUR
Cash Flow from Operating Activities					
Net Profit		**783,756**	**700,601**	**695,345**	**633,207**
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities					
Depreciation and Amortization	6,7,22	461,849	396,869	409,751	358,693
Impairments/Write-Offs for Receivables	4	296,870	240,639	263,382	217,491
Changes in Deferred Tax Assets	8	(316,990)	–	(281,232)	–
Non-Cash Compensation from Stock Options	18	–	19,646	–	17,756
Other Non-Cash Transactions		(212,006)	6,308	(256,020)	41,744
Changes in Operating Assets and Liabilities					
Trade Receivables	4	(105,406)	(503,271)	(93,516)	(454,860)
Other Current Assets	5	(120,668)	21,762	(107,056)	19,669
Security Deposits		(51,817)	1,850	(45,972)	1,672
Accounts Payable	9	59,216	67,706	52,536	61,193
Provisions	11	–	–	–	–
Accrued Expenses and Tax Liabilities	10	529,679	(159,145)	469,930	(143,836)
Deferred Revenue	14	(112,080)	196,021	(99,437)	177,165
Total Adjustments		**428,647**	**288,385**	**312,366**	**296,687**
Cash Flow Provided by Operating Activities		**1,212,403**	**988,986**	**1,007,711**	**929,894**
Cash Flow from Investing Activities					
Purchase of Property and Equipment	6,12	(81,917)	(34,299)	(68,270)	(32,595)
Purchase and Development of Intangible Assets	7,12	(954,844)	(473,687)	(795,767)	(450,145)
Payment for Acquisition of Consolidated Companies		14,998	–	12,499	–
Cash Flow Used in Investing Activities		**(1,021,763)**	**(507,986)**	**(851,538)**	**(482,740)**
Cash Flow from Financing Activities					
Repayment of Finance Leases	12	(54,355)	(123,827)	(48,224)	(111,915)
Loans Redeemed	27	–	(269,475)	–	(243,554)
Cash Flow Used in Financing Activities		**(54,355)**	**(393,302)**	**(48,224)**	**(355,469)**
Effects of Exchange Rate Changes on Cash		**80,949**	**(60,943)**	**(56,699)**	**(30,178)**
Changes in Cash and Cash Equivalents		**217,233**	**26,755**	**51,250**	**61,507**
Cash and Cash Equivalents—Start of Year	3	**1,110,281**	**1,083,526**	**1,055,100**	**993,593**
Cash and Cash Equivalents—End of Year	3	**1,327,514**	**1,110,281**	**1,106,350**	**1,055,100**
Supplemental Disclosures of Cash Flow					
Income Tax Receipts/(Payments)	8	(57,696)	(20,873)	(51,188)	(18,865)
Interest Payments	22	(36,363)	8,229	(32,261)	7,438
Interest Receipts	22	(700)	1,462	(621)	1,321

Notes to the Consolidated Financial Statements 2017

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1. Corporate Information and Statement of Compliance

artnet AG (hereinafter referred to as “artnet AG” or the “Company”) is a publicly traded corporation headquartered in Berlin, Germany. The address of its registered office is Oranienstraße 164, 10969 Berlin, Germany.

artnet AG holds 100% of the shares in Artnet Worldwide Corporation (“Artnet Corp.”), which is located in New York, NY, USA. Artnet Corp. holds 100% of the shares in artnet UK Ltd and 100% of Jay Art GmbH. Jay Art GmbH is in liquidation as of January 30, 2018. artnet AG and Artnet Corp., together with the latter’s wholly owned subsidiaries, are referred to as the “artnet Group,” the “Group,” or “artnet.”

The Group’s goal is to provide collectors, galleries, publishers, auction houses, and art enthusiasts with an all-in-one platform to buy, sell, and research fine art. Users can find artworks that are currently available for sale in the Gallery Network, Auction House Partnerships, or on artnet Auctions, an online transaction platform. artnet News, the 24-hour newswire, informs users about the events, trends, and people shaping the global art market.

Applying § 315e of the German Commercial Code (HGB), accompanying the consolidated financial statements as of December 31, 2017, financial statements for the parent and subsidiary companies were prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations of the International Accounting Standards Board (IASB) effective within the EU. The consolidated financial statements were authorized for issuance by the CEO on March 20, 2018.

2. Summary of Significant Accounting Policies

Basis of Accounting and Reporting Currency

Amounts included in the consolidated financial statements and notes to the consolidated financial statements are stated in euros (EUR) as required by German law, unless otherwise noted. Financial information presented in euros is rounded up to the next highest thousand (k EUR) unless stated otherwise. Due to rounding, amounts presented may not add up exactly.

The currency of the primary economic environment in which the Group operates is in US dollars. For convenience, especially for our US-based investors, the consolidated statement of financial position, statement of comprehensive income, cash flow statement, and statement of changes in equity are also presented in US dollars.

The consolidated financial statements have been prepared on a historical cost basis. The balance sheet date is December 31, 2017. The principal accounting policies adopted are set out below.

The consolidated financial statements as of December 31, 2017 have been prepared under the assumption that the Company will continue operations, as the Company assumes that the due payment obligations in 2018 can be fulfilled. Due to planned measures against the enforcement of a ruling in France regarding copyright infringement, the Group assumes no full cash outflows for the claimed damage. The potentially significant liquidity risk due to the copyright process ruling is explained in detail in the liquidity risk section in the Group Management Report.

Basis of Consolidation and Consolidated Companies

The consolidated financial statements include the parent company, artnet AG, as its wholly owned subsidiary, and Artnet Corp., as the subsidiaries of the Company. A company determines whether it is a parent by assessing whether it controls one or more investees. A company considers all relevant facts and circumstances when assessing whether it controls an investee. A company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. artnet AG has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. An investor must be exposed, or have rights to variable returns from involvement with an investee, to control the investee. Such returns must have the potential to vary as a result of the investee’s performance and can be positive, negative, or both. Variable returns include dividends, fixed and variable interest rates, fees and charges, fluctuations in the value of investments, and other economic benefits.

On February 23, 1999, artnet AG entered into a transaction with Artnet Corp., which was treated as a recapitalization of Artnet Corp., with Artnet Corp. as the acquirer of artnet AG. The Company accounted for the business combination of artnet AG and Artnet Corp. as a reverse acquisition in accordance with IFRS 3.B1 et seq.

On November 1, 2007, Artnet Corp. established artnet UK Ltd., which is a wholly owned subsidiary of Artnet Corp. artnet UK Ltd. conducts sales and provides customer support for Artnet Corp. in the United Kingdom.

On June 6, 2017, Artnet Corp. acquired the online art marketplace Jay Art GmbH ("Jay Art") and its platform, Artusiast. Jay Art did not have any active business operations at the time of the acquisition, so there was no corporate acquisition within the meaning of IFRS 3. In addition to a symbolic purchase price, liabilities in the amount of 27k EUR and performance obligations in the amount of 40k EUR were assumed in the acquisition, resulting in a total consideration for the acquisition amounted to 67k EUR. The acquisition included intangible assets of 57k EUR and cash and cash equivalents of 12k EUR, as well as current liabilities of 6k EUR, which were transferred to Artnet Corp. As of January 30, 2018, Jay Art GmbH is in liquidation.

All significant intercompany transactions, balances, income, and expenses are eliminated in full on consolidation.

Reporting Period

The consolidated financial statements were prepared for the reporting period, from January 1, 2017 through December 31, 2017. The financial year for all Group companies coincides with the calendar year.

Accounting Principles of General Importance for artnet

Explanations relevant to the accounting principles are provided in the notes of the respective financial statement. The following section presents the accounting principles that affect the financial statement.

Impairment

The Group reviews tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets with an indefinite useful life, as well as intangible assets not yet available for use, are subject to an annual impairment test. Recoverability of assets is measured by the comparison of the carrying amount of the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value minus the cost to sell. In the event that the asset does not generate cash flows independent from other assets, the impairment test is not performed at an individual asset level; instead, it is performed at the level of the cash-generating unit to which the asset belongs. If the recoverable amount of the cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense as soon as it occurs. The asset's value in use, either at an independent level or at a cash-generating unit level, is measured by discounting the asset's estimated future cash flows. If there is an indication that the reasons that caused the impairment loss no longer exist, the Group will assess the need to reverse all or a portion of the impairment, as long as it does not exceed the original carrying amount. In 2017 and 2016, no impairment of tangible or intangible assets has been recorded.

Foreign Currency Translation and Business Transactions

The currency of the primary economic environment in which the Group operates is US dollars, which is the operating currency for the subsidiary Artnet Corp. Transactions in currencies other than US dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses from foreign currency transactions are recognized as other income or expenses.

On consolidation, the assets and liabilities of the Group's operations are also translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. The accumulated gains and losses resulting from translation are recorded as a separate component of the Group's equity.

If the conditions of IAS 21.15 are met, intercompany loan receivables are classified as part of a net investment. Accordingly, exchange differences on the loan amount in euros will be recognized in the foreign currency adjustment item in equity at closing dates (including interim reports). The amount recognized in the foreign currency adjustments is reflected in the profit or loss of the Group, if and when the ownership interest is dissolved in full or partly.

Currency exchange rates significant to the Group, are the translation of US dollars to euros, and of US dollars to British pounds (GBP). The following exchange rates have been used for the currency translation in the years presented:

	USD to EUR		USD to GBP	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Current Rate Year End	0.8334	0.950	0.7406	0.811
Average Rate for the Year	0.8872	0.904	0.7768	0.741

New and Amended Standards and Interpretations for the Fiscal Year

The following new or amended standards and interpretations, for which the application was mandatory in the 2017 fiscal year, did not have any material impact on the Company's consolidated financial statements.

New Features and Changes in Accounting

Amendments of Standards	Coming into Effect	Date of EU Endorsement
Amendments to IAS 7: Disclosure Initiative	1/1/2017	11/6/2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1/1/2017	11/6/2017

Since there are no financial liabilities in the Group, the necessary reconciliation of these financial items no longer applies with the amended IAS 7, as compared to last year.

Not Yet Applied New or Revised Standards and Interpretations

Future Features and Changes in Accounting

New Standards or Interpretations		Issued	Date of EU Endorsement
IFRS 9	Financial Instruments	1/1/2018	11/22/2016
IFRS 15	Revenue from Contracts with Customers	1/1/2018	9/22/2016
IFRS 16	Leases	1/1/2019	10/31/2017
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	Q1 2018
IFRIC 23	Uncertainty Over Income Tax Treatments	1/1/2019	Q3 2018
Amendments of Standards			
Clarifications to IFRS 15: Revenue from Contracts with Customers		1/1/2018	10/31/2017
Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions		1/1/2018	2/27/2018
Annual Improvements to IFRS Standards 2014–2016 Cycle		1/1/2018	2/7/2018
Amendment to IAS 40: Transfers of Investment Property Not Yet Completed		1/1/2018	Q1 2018
Amendment to IFRS 9: Prepayment Regulation with Negative Compensation		1/1/2019	Q1 2018
Annual Improvement Process (2015–2017 Cycle)		1/1/2019	2018
Amendments to IAS 28: Long-Term Interests in Associates and Joint Ventures		1/1/2019	2018
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement		1/1/2019	2018

Explanations of Standards With Potential Relevance to artnet's Accounting and Reporting

IFRS 15 "Revenue from Contracts with Customers"

The standard IFRS 15 "Revenue from Contracts with Customers" is effective for fiscal years beginning on or after January 1, 2018. The new standard reflects the recognition of revenue with the transfer of confirmed goods or services for customers with the expected amount of what the Company will get in exchange for these goods or services. Revenue will be recognized when the customer receives the authority to dispose of these goods or services.

IFRS 15 regulates also the disclosure of existing commitments and received compensatory measures. Conceptually, revenue recognition is based on a five-step model. First, the contract has to be identified, which is required for the new standard IFRS 15. Performance obligations in the contract also must be identified. In a next step, the transaction price is determined. Then, the transaction price is allocated to the performance obligations in the contract. Finally, revenue is recognized. IFRS 15 will not have a material impact on the consolidated financial statements of the Company. Revenue recognition over time for gallery memberships, Auction House Partnerships, and Price Database subscriptions will continue under IFRS 15. Furthermore, IFRS 15 does not affect the methodology for revenue recognition in advertising contracts and online auction business. Overall, only extended notes ensue.

IFRS 16 “Lease”

The standard IFRS 16 “Lease” is effective for accounting periods beginning on or after January 1, 2019. The standard will be applied retrospectively, potentially with a transition period.

According to IFRS 16, a lease contract applies if an agreement between the lessee and lessor creates enforceable rights and obligations of a certain asset for a defined period, and the lessor receiving compensating measures in return.

In future, the lessee will inherently have to capitalize rights of use given from every lease and to passivate payment obligations resulting from the lease. The lease obligation will be recorded at the current worth of future lease payments.

As a result, in addition to the lease agreements currently being treated as finance leases, the lease for the offices in New York and Berlin are also to be recognized on the balance sheet. Since the lease liability is discounted at the Group's marginal borrowing rate at the time of initial application and cannot yet be estimated at present, this consolidated financial statement only provides an approximate estimate of the potential impact based on undiscounted values. The actual conversion effects will, therefore, be lower.

Without taking interest effects into account, total assets would increase by 4,646k EUR, if the IFRS 16 standard was applied as of December 31, 2017. Based on the balance sheet dated as of December 31, 2017, this would lead to a significant reduction of the equity ratio from 29.5% to 16.3%. Additionally, write-offs and interests paid need to be recorded instead of operating expenditure, resulting in a release of the operating income. Within the cash flow statement, obligations from rent and lease contracts will be shifted from the cash flow from operating activities to the cash flow from financing activities.

Other New and Amended Standards

The other new and amended rules to be applied in the future, including IFRS 9, are assumed to have no or only minor relevance to the accounting and reporting of the Group. In particular, the Group assumes that the previous calculation of allowance for value adjustment for accounts receivable can be continued in accordance with IFRS 9.

3. Cash and Cash Equivalents and Explanation of Consolidated Statement of Cash Flow

Cash and cash equivalents are comprised of cash and bank balances. Cash and bank balances are stated at fair value. The Company considers all highly liquid investments with less than three-month maturity from the date of acquisition to be cash equivalents.

Based on cash transactions, the Group’s cash flow statement represents the change in liquid assets in the reporting period. According to IAS 7, cash flows are reported separately by the source and the application of operating activities, investing, and financing activities.

Cash flow from operating activities is derived indirectly, based on the Group’s net income. In contrast, cash flow from investing and financing activities is calculated directly from inflows and outflows. Acquisition of tangible and intangible assets under finance leases is eliminated from the cash flow statement, as these investments are non-cash expenses. Subsequent repayments of finance lease liabilities are represented as cash flow from financing activities.

The performance of the various cash flows arise by considering the effects of exchange rates, and shows the change in cash and cash equivalents of the Group. Cash and cash equivalents as presented in the cash flow statement include all cash and cash equivalents recognized in the balance sheet.

4. Accounts Receivable

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. Accounts receivable are recorded at the invoiced amount and do not bear interest. They include credit card transactions which have already been settled, but for which no payment has been received. The accounts receivable balance demonstrates a net of allowance for doubtful accounts. The allowance for doubtful accounts involves significant Management judgment, and review of individual receivables based on individual customer credit worthiness, current economic trends, and analysis of historical bad debts on a portfolio basis. Actual results could differ from those estimates.

Accounts receivable consist of the following:

	12/31/2017 k EUR	12/31/2016 k EUR
Gross Accounts Receivable	1,552	1,892
Less: Allowance for Value Adjustment Accounts Receivable	(337)	(325)
Receivables After Impairment	**1,215**	**1,567**

All accounts receivable are due within one year.

There is no concentration of credit risk with respect to accounts receivable, as the Group has a diversified customer base. The carrying amount of accounts receivable is equal to their fair value.

Receivables by maturity:

	12/31/2017 k EUR	12/31/2016 k EUR
Overdue But Not Impaired Receivables		
Between 0 and 60 Days	949	1,128
Carrying Amounts of Impaired Receivables		
Overdue Between 61 and 90 Days	151	240
Overdue More than 90 Days	115	200
Total Overdue and Impaired Receivables	266	439
Receivables After Impairment	**1,215**	**1,568**

The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable. Accounts receivable that are less than 60 days overdue are not provided for. Accounts receivable that are more than 60 days overdue are provided for on a grading scale, based on the age of the individual receivable, with allowances between 10% and 90% of the nominal value. The Group does not hold any collateral for accounts receivable balances.

Allowance for doubtful accounts developed as follows:

	12/31/2017 k EUR	12/31/2016 k EUR
Balance at the Beginning of the Fiscal Year	325	246
Bad Debt Expenses for the Year	348	263
Write-Off of Bad Debts	(275)	(206)
Currency Exchange Differences	(61)	22
Balance at the End of the Fiscal Year	**337**	**325**

5. Other Assets

Other Current Assets

Other current assets consist mainly of designated restricted cash balances for defined contribution retirement plans and health insurance plans in the amount of 174k EUR (2016: 169k EUR). For software maintenance and insurance deposits, prepayments have been made in the amount of 194k EUR (2016: 183k EUR). Other current assets include assets acquired from Jay Art, and other receivables amount to 38k EUR (2016: 5k EUR). In addition, there are claims on tax payments in Germany and the United Kingdom amounting to 31k EUR (2016: 28k EUR).

Other Non-Current Assets

Other non-current assets include reimbursement claims due to the alternative minimum tax ("AMT") of 42k EUR (2016: 0 EUR) and security deposit claims in connection with credit card bills and lease agreements of 323k EUR (2016: 367k EUR).

6. Tangible Assets

Tangible assets are recorded at historical cost minus accumulated depreciation. The Group depreciates its assets over their estimated useful life using the straight-line method. Computer equipment, furniture, fixtures, and office equipment are depreciated over an estimated useful life of three to seven years. Leasehold improvements are amortized over the lesser of the term of the related lease or its estimated useful life, which is up to 10 years. Maintenance expenses that neither enhance the value of an asset nor prolong the useful life are expensed as incurred.

Tangible assets in the 2017 and 2016 fiscal years developed as follows:

	Computer and Hardware k EUR	Operating and Office Equipment k EUR	Leasehold Improvement k EUR	Total k EUR
Acquisition Costs				
As of December 31, 2015	**495**	**604**	**468**	**1,568**
Exchange Differences	17	21	14	53
Disposals	(256)	(94)	(74)	(423)
Additions	32	1	–	33
As of December 31, 2016	**289**	**531**	**409**	**1,230**
Exchange Differences	(34)	(64)	(50)	(149)
Disposals	-	-	-	-
Additions	55	3	-	58
As of December 31, 2017	**310**	**470**	**359**	**1,139**
Depreciation				
As of December 31, 2015	**331**	**366**	**219**	**915**
Exchange Differences	14	16	7	37
Disposals	(253)	(94)	(74)	(421)
Depreciation for the Period	85	70	39	194
As of December 31, 2016	**176**	**358**	**191**	**725**
Exchange Differences	(23)	47	(26)	(96)
Disposals	-	-	-	-
Depreciation for the Period	86	67	38	191
As of December 31, 2017	**238**	**378**	**204**	**820**
Carrying Amount				
As of December 31, 2016	**114**	**174**	**218**	**505**
Includes: Finance Leases	72	130	-	202
As of December 31, 2017	**72**	**92**	**155**	**320**
Includes: Finance Leases	27	67	-	94

The depreciation expense of tangible assets is included in the cost of sales.

7. Intangible Assets

Intangible assets comprise of acquired and internally developed software and website development costs. Intangible assets are recorded as historical costs, and amortized on a straight-line basis over their estimated useful life of three to 10 years. All intangible assets have a limited useful life. Costs related to the research, planning, and post-implementation phases of the Group's websites—such as minor enhancements and maintenance or development efforts—are expensed as incurred. Maintenance expenses, which neither enhance the value of an asset nor prolong the useful life, are recorded as expenses. Costs incurred in the development phase are capitalized if:

- The product or process is technically and commercially feasible
- There is a market for the outcome of the website development
- The attributable expenditure can be reliably measured
- The Group has sufficient resources to complete development

The market condition is substantiated, as only expenditures related to website development projects and material expansions are capitalized if such improvements to the website are expected to generate future revenue. Capitalized software development costs generate future economic benefits also in the form of cost savings.

In 2017, 729k EUR (2016: 449k EUR) of the total development was capitalized. The main development projects include the Gallery Portal, new navigation for artnet Auctions, and the process of upgrading the technology infrastructure and internal tools. The Gallery Portal allows galleries to manage their own inventory, with the goal of increasing the number of artworks added to the site, growing artwork inquiries, and boosting artnet's rankings in external search engines. This was completed by the third quarter of 2017. The new navigation for artnet Auctions, completed at the end of 2017, better aids user intent by increasing discovery and serves as an organic entry point for those looking to buy or sell art. Finally, the process of upgrading our technology infrastructure will improve quality assurance and efficiency for the whole company. This project, titled FALCON, is anticipated to be partially completed by 2019.

The amortization expenses for intangible assets are included in the cost of sales. Research costs in the amount of 2.696k EUR (2016: 2,713k EUR) were recorded as a development expense in the period in which they were granted.

Intangible assets in the 2017 and 2016 fiscal years developed as follows:

	Development Costs EUR	Software EUR	Total EUR
Acquisition Costs			
As of December 31, 2015	**2,342**	**395**	**2,736**
Exchange Differences	85	14	99
Disposals	–	(235)	(235)
Additions	449	1	450
As of December 31, 2016	**2,876**	**175**	**3,051**
Exchange Differences	(354)	(22)	(375)
Disposals	–	–	-
Additions	729	79	808
As of December 31, 2017	**3,251**	**232**	**3,484**
Amortization			
As of December 31, 2015	**1,863**	**366**	**2,229**
Exchange Differences	75	14	90
Disposals	–	(235)	(235)
Amortization for the Period	145	20	165
As of December 31, 2016	**2,083**	**165**	**2,248**
Exchange Differences	(269)	(21)	(290)
Disposals	–	–	–
Amortization for the Period	209	10	219
As of December 31, 2017	**2,023**	**154**	**2,177**
Carrying Amount			
As of December 31, 2016	**793**	**10**	**803**
Includes: Finance Leases	–	6	6
As of December 31, 2017	**1,228**	**78**	**1,307**
Includes: Finance Leases	–	2	2

As of December 31, 2017, the Group did not have any material contractual obligations for the acquisition of intangible assets.

8. Taxes and Deferred Taxes

The current tax expense is determined on the basis of the taxable income of each of the Group's companies for the fiscal year. The taxable income is adjusted for items that are non-taxable or tax deductible. The current tax expense is calculated based on the applicable tax rates on the balance sheet date.

Income tax expense/benefit consists of the following:

	2017 k EUR	2016 k EUR
Current Income Taxes		
Income Tax Payments in France and Great Britain	2	0
US Corporate Tax (Federal, State) and Income Tax Expenses of Other Consolidated Companies	48	41
Total Current Income Taxes	50	41
Deferred Tax		
Change in Deferred Tax Assets Based on Loss Carryforwards	(241)	(227)
Temporary Differences	(65)	198
Exchange Rate Differences	(20)	29
Total Deferred Taxes	(326)	0
Total Income Taxes	**(277)**	**41**

Deferred Tax Asset

Deferred taxes are recognized under the asset and liability method in respect to temporary differences between the financial statement carrying amounts of assets and liabilities, and their respective tax bases. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and liabilities are measured using enacted or substantially enacted statutory tax rates for the time in which the differences are expected to reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available, against which the deductible temporary differences, unused tax losses, and unused tax credits can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority, on either the same taxable business or different taxable businesses where there is an intention to offset the balances on a net basis.

As of the 2017 balance sheet date, Artnet Corp. has a total of 19.4 million EUR (23.3 million USD) in federal carried-forward tax losses and 23.7 million EUR (28.5 million USD) in carried-forward state tax losses from the state of New York available to offset future profits.

As of December 31, 2016, these carried-forward tax losses amounted to 23.5 million EUR (24.7 million USD) and 28.4 million EUR (29.9 million USD), respectively. In the 2017 fiscal year, the carried-forward tax losses were utilized by achieving a taxable profit in the amount 1.5 million USD and 1.1 million USD, respectively. For the actual carried-forward tax losses of Artnet Corp., deferred tax assets of 1,001k EUR (2016: 840k EUR) were recognized in the consolidated balance sheet after deduction of deferred tax liabilities. The increase in deferred tax assets by 161k EUR is mainly due to the stabilization of tax results in recent years and an improved outlook for future taxable income. Due to the US tax reform that took effect on December 22, 2017, the tax rate used to measure deferred taxes has been reduced from 43% to 32%, which is the average corporate tax rate of Artnet Corp. applicable from 2018. The recognition of deferred tax assets on carried-forward tax losses is based on a three-year plan. The federal carried-forward tax losses of Artnet Corp. can be used over a period of 20 years and expire in 2019 in the amount of 4.1 million EUR (4.9 million USD), in 2020 in the amount of 12.3 million EUR (14.7 million USD), and in 2021 in the amount of 2.1 million EUR (2.6 million USD). The State of New York carried-forward tax losses expire only from the year 2035.

artnet AG has additional carried-forward tax losses available to offset corporation and commercial tax in the amount of 36.2 million EUR (2016: 35.6 million EUR). In the current organizational structure of the Group, these tax loss carryforwards cannot be used under the German tax law.

In total, current active and passive deferred taxes relate to the following balance sheet items and carried-forward tax losses of Artnet Corp.:

	Deferred Tax Assets 2017 k EUR	Deferred Tax Assets 2016 k EUR
Deferred Tax Assets	1,102	1,030
Fixed Assets	(135)	(198)
Accounts Receivable	34	8
Total	**1,001**	**840**

Tax Rate Reconciliation

The following table reconciles the expected income tax expense and/or benefit to the actual income tax expense presented in the financial statements.

The tax rate of 43% (2016: 43%) is the average income tax rate of Artnet Corp., because Artnet Corp. is the main operating entity that generates the taxable income of the Group.

	2017 k EUR	2016 k EUR
Earnings Before Tax from Continued Operations	419	674
Expected Income Tax Expense/(Benefit)—Tax Rate 43%	180	290
Non-Deductible Expenses and Other Effects	132	152
Recognition of Deferred Tax Assets on Loss Carryforwards Used in Previous Years	(450)	-
Effect of Tax Rate Adjustments in the US	116	-
Reduction in Current Tax Expense Due to the Use of Tax Loss Carryforwards in the US	(571)	(776)
Non-Recognition of Deferred Tax Assets on Temporary Differences and Tax Loss Carryforwards in Germany and the US	316	375
Income Tax Expense / Tax Income as Per Statement of Comprehensive Income	(277)	41

9. Accounts Payable

Accounts payable are principally comprised of amounts outstanding for purchases and current costs. The average credit period taken for accounts payable is 30 days. The carrying amount of accounts payable approximates their fair value.

10. Accruals and Other Liabilities

Accruals and other liabilities consist of the following for the years presented:

	12/31/2017 k EUR	12/31/2016 k EUR
Bonus Payments	462	111
Outstanding Invoices	359	291
401(k) Payments (Retirement Provisions in the US)	114	116
Remaining Vacation Days	28	15
Taxes and Social Security	21	3
Other	73	68
Total	**1,057**	**604**

11. Provisions

Provisions are recognized when the Group has a present obligation from a past event, that is to say, when it is probable that the fulfillment of this obligation is accompanied by the outflow of resources and when a reliable estimate of the amount can be made.

Provisions in the amount of 895k EUR (2016: 850k EUR) were recorded for possible indemnity payments due to accusations of copyright infringement by a photographer, granted in March 2015 by the Paris Court of Appeal. This provision reflects the inherent risk to the Group in consideration of all available information, and covers the alleged claim for damages by the photographer, and related potential legal and consulting fees.

The Group uses all options to prevent the execution of the ruling in Germany and the United States and at the same time tries to achieve an amicable settlement with the photographer. The provision covers the maximum risk of this trial, including interest. Considering all options, the Group does not expect a full payment of the provision to be required in the 2018 fiscal year.

12. Liabilities from Finance Leases

Assets held under finance leases are initially recognized at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Depreciation and amortization are recorded over the economically useful life, or over a shorter contractual period using the depreciation method that also applies to comparable assets acquired or manufactured. The finance lease obligation is shown separately in the consolidated balance statement under liabilities from finance leases. Minimum lease payments are apportioned in the finance charge and the reduction of the lease liability, so as to achieve a constant interest rate applied to the remaining liability. Contingent lease payments are recorded as expenses in the periods in which they occur.

Liabilities from finance leases occurred due to purchased equipment such as servers, computer equipment, software, and new office and business equipment in previous years. At the end of the respective contractual period, there is a purchase option for Artnet Corp. The liabilities from finance leases are carried at the present value of the future lease payments, using the discounted rate on which the lease agreement is based. The minimum lease payments were reconciled to the present value as follows:

12/31/2017	Total k EUR	< 1 year k EUR	> 1–3 years k EUR
Present Value of Minimum Lease Payments	29	16	12
Interest Portion	1	1	1
Minimum Lease Payments	**30**	**17**	**13**

12/31/2016	Total k EUR	< 1 year k EUR	> 1–3 years k EUR
Present Value of Minimum Lease Payments	84	73	12
Interest Portion	0.2	0.2	–
Minimum Lease Payments	**85**	**73**	**12**

The carrying amount of liabilities from finance leases corresponds to their fair value.

13. Deferred Rent Incentive

Non-current liabilities from deferrals for the rent incentive relate to the advantages from rent-free periods in the amount of 199k EUR (2016: 270k EUR) for the office premises rented in New York as of December 31, 2017. Deferrals in US dollars decreased as scheduled by 46k USD, while the amount in euros also decreased by 71k EUR due to currency exchange effects.

14. Deferred Revenue and Revenue Recognition

Revenue for services is recognized when services have been rendered, that is to say, when the amount of revenue can be reliably measured and when the receipt of cash for the corresponding claim can be expected. For Gallery Network memberships and Auction House Partnerships, revenue is recognized when the Group met its contractual performance obligation and the respective member site is created, and thus available on the Group's website. Revenue is recognized at the beginning of each performance or billing period, and will be deferred on a monthly basis. Revenue from Price Database subscriptions are recorded by the same methodology. Revenue is realized in the period when the customer account is created. Revenue recognition of advertising contracts is based on the billing terms mentioned in the contract, with a distinction made between a fixed price and a performance-based model. Revenue from advertising contracts with a fixed price are recorded similarly to the revenue from gallery memberships and subscriptions to the Price Database: for the period in which banners appear on the website or in newsletters. Revenue recognition for performance-based advertising contracts will be recognized after the agreed performance indicators were evaluated and coordinated with the relevant customer. For artnet Auctions, buyer and seller commissions are realized the moment when the Group has arranged the corresponding business successfully.

Revenue is measured at the fair value of the received, or to be received, consideration, minus any discounts, VAT, and other sales tax.

Customers make advanced payments for certain service contracts with the Group. These prepaid amounts are realized as revenue only when the Group provides the agreed service. The Group records these amounts as liabilities from deferred revenue as of December 31, 2017, amounting to 1,522k EUR as compared to 1,842k EUR in the previous year.

15. Equity

	2017	2016
Authorized No-Par Value Shares (accounting par value 1.00 EUR per share)	5,631,067	5,631,067
Issued and Fully-Paid No-Par Value Shares (accounting par value 1.00 EUR per share)	5,552,986	5,552,986
Treasury No-Par Value Shares	78,081	78,081

artnet AG has only restricted shares. These shares do not carry any right to fixed income.

Authorized Capital

The Shareholders' Meeting of artnet AG on July 16, 2014 authorized the Board of Directors, with the approval of the Supervisory Board, to increase the capital stock by up to 2,800k EUR before July 15, 2019, through the issue of 2,800,000 new no-par value bearer shares in exchange for cash contributions or contributions in kind (Authorized Capital 2014).

No shares have been issued from the Authorized Capital 2014 at this point.

Conditional Capital

As per the resolution of the Shareholder's Meeting on July 15, 2009, the registered capital was increased by up to 560,000 new no-par value shares (conditional capital 2009/I) to the Company's directors and management team members of affiliated companies and employees of artnet AG. The authorized conditional capital 2009/I expired in 2014. No shares have been issued from it.

In 2009, 2010, and 2014, 398,907 stock options were granted to the Management and employees of the subsidiary Artnet Corp. from the 2009 stock option program. With the exception of the 75,000 stock options granted in 2014, none of the stock options have reached their exercise price, and none of these options have been exercised to date. All of these 398,907 issued share options can increase the conditional capital (conditional capital 2009/I) if they are exercised.

Treasury Shares

As of December 31, 2017, artnet AG held 78,081 of its own shares, as in the previous year, representing 1.4% of common stock. The Group's equity will be reduced by the acquisition costs of artnet AG's treasury stock.

Foreign Currency Adjustment Items

On consolidation, the assets and liabilities of the Group's operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. The accumulated gains and losses resulting from translation are recorded as a separate component of the Group equity. Since the initial consolidation of the Group, exchange differences arising from translating assets and liabilities at spot rate—and translating revenue and expenses at the average rate for the year by volatile exchange rates—are recorded in the other comprehensive income of the Group.

Since 2015, the other comprehensive income also includes exchange differences arising from the evaluation of the long-term intracompany loan, which is classified as part of a net investment. For more information regarding the currency exchange differences, refer to paragraph 17 of the consolidated notes "Financial Instruments and Risks Arising from Financial Instruments."

16. Capital Management

The capital structure for the Group consists primarily of current liabilities from current business transactions, long-term finance lease obligations, and equity. Equity is attributable to the shareholders of the parent company and consists mainly of issued shares, capital reserve, and the accumulated results of the Group. Additionally, in 2012, Artnet Corp. entered into an operating lease agreement for office space with a contract term through 2023. Almost all business activities are currently financed out of bank deposits and operating cash flows.

17. Financial Instruments and Risks Arising from Financial Instruments

Categories of Financial Instruments

The Group's financial assets are cash and cash equivalents, accounts receivable, and rent security deposits. These financial assets are classified under the category "Loans and Receivables."

The Group's financial liabilities are accounts payable, other liabilities, and liabilities arising from finance leases. Accounts payable and other liabilities are measured at amortized cost. Liabilities arising from finance leases are measured by their present value of minimum lease payments in accordance with IAS 17.

Both the carrying amounts of financial assets and the carrying amounts of financial liabilities are a reasonable approximation of their fair value. No financial assets or financial liabilities were designated at fair value.

In the 2017 and 2016 business years, the Group did not use any derivative financial instruments.

Net Results from Financial Assets and Liabilities

The following chart shows the net results arising from financial assets and liabilities:

	Net Results 2017 k EUR	Net Results 2016 k EUR
Loans and Receivables	(183)	(393)
Financial Liabilities	(13)	(4)
Total	**(196)**	**(389)**

The components of net results are gains or losses from exchange rate differences, and bad debt expenses for doubtful accounts and write-offs. Interest expenses in the amount of 1k EUR (2016: 8k EUR) are included in the net result of financial liabilities.

The other interest expenses shown in the income statement relate to interest on a post-payment commercial rent tax to New York City.

Credit Risk

Credit risk refers to the risk that is inherent if a counterparty defaults on its contractual obligations, resulting in a financial loss. These financial assets represent the Group's maximum exposure to credit risk.

The Group's credit risk is primarily attributable to its accounts receivable. The amount presented in the balance sheet is a net of allowances for doubtful accounts, estimated by Management, based on the aging of the receivable portfolio and customer payment trends.

The Group has no significant concentration of default risk since the exposure is distributed over a large number of customers, including individuals and entities dealing within the fine art market. Nevertheless, the global economic downturn could negatively influence the solvency of the Group's customers, leading to an increase in the average credit period, or, at worst, leading to an increase in customer default. This would negatively affect the Group's earnings, as well as its financial position. The Group tries to counteract such risks by requiring upfront payments from customers whenever possible.

Liquidity and Interest Risk

Liquidity risk arises in the event that the Group could not meet financial obligations on their due date. Therefore, the aim is to provide sufficient liquidity to meet liabilities on time. To this end, the Group is reliant on generating a positive cash flow from operating activities. Liquidity risk is constantly revalued on a daily basis, using a deviation analysis of current and monthly cash equivalents as reported in the liquidity planning, which ensures a quick response to changes in the risk potential. Management expects a positive operating cash flow for the 2018 fiscal year, based mainly on planned sales increases before potential payment obligations related to the copyright infringement litigation in France. If revenue does not increase as expected, planned investments may be rescheduled, or their implementation may be extended.

The Group faces no material interest-rate risk. The Group's companies have several fixed interest-bearing finance lease agreements in the amount of 29k EUR (2016: 84k EUR). Other current liabilities and accrued expenses have a remaining term of less than one year.

The gross cash flows arising from financial liabilities, including anticipated interest payments, are shown in the following chart:

12/31/2017	Carrying Amount k EUR	Gross Cash Flow k EUR	Gross Cash Flow k EUR	Gross Cash Flow k EUR
		Total	< 1 Year	> 1 Year
Liabilities at Amortized Costs	715	715	715	–
Liabilities from Finance Leases	29	30	17	13

12/31/2016	Carrying Amount k EUR	Gross Cash Flow k EUR	Gross Cash Flow k EUR	Gross Cash Flow k EUR
		Total	< 1 Year	> 1 Year
Liabilities at Amortized Costs	639	639	639	–
Liabilities from Finance Leases	84	85	73	12

Provisions and accrued liabilities are not financial instruments, and are therefore not mentioned in the above calculation of liquidity risk under IFRS 7. It is assumed that the current provisions will lead to a cash outflow in the 2018 fiscal year. Exceptions to this include the current provisions for legal disputes in France in the amount of 895k EUR (2016: 850k EUR) for the copyright infringement of a photographer. Aside from all legal remedies, the Group continues its efforts to achieve a settlement with the photographer. Considering all available options, the Group does not believe a full payment of damages, for which provisions were made in the 2015 fiscal year, will be required in 2018.

Market and Foreign Currency Risks

Market risks are mainly relevant in the form of foreign currency exchange risks for the Group's companies, as most of the revenues are generated in US dollars but a certain amount of costs must be paid in euros. The Group controls these currency exchange risks by invoicing its European customers in euros, and using these payments to fulfill its obligations in the foreign currency. This helps to reduce the exchange rate risk. Besides the US-dollar-to-euro exchange rate risk, the Group is also exposed to the US-dollar-to-British-pound exchange rate risk, but on a smaller scale. In addition, foreign currency risks exist for the Group from intercompany euro claims coming from financing the parent company artnet AG, which is located in Europe, and the operating subsidiary Artnet Corp., which is located in the United States, and for euro bank stocks for Artnet Corp.

The carrying amounts of the Group's monetary assets and monetary liabilities, denominated in currencies other than the US dollar at the reporting date, are as follows:

Foreign Currency	Financial Assets		Financial Liabilities	
	12/31/2017 k EUR	12/31/2016 k EUR	12/31/2017 k EUR	12/31/2016 k EUR
EUR	521	898	37	42
GBP	230	433	2	1

Additionally, the intragroup receivables validating in euros from Artnet Corp. against artnet AG amounted to 1,978k EUR as of December 31, 2017 (2016: 2,243k EUR). This bears a theoretical currency risk for Artnet Corp., which will not be recognized in profit or loss in the consolidated financial statements. To minimize this risk, Artnet Corp. converted existing current intercompany receivables of artnet AG in the amount of 1,500k EUR into a long-term intercompany loan. A settlement for this loan is neither planned nor likely to occur in the foreseeable future. The intercompany loan qualifies as a net investment according to IAS 21.15. Therefore, exchange differences on the euro-validating loan will be recognized in other comprehensive income, and will thus be accumulated in a separate component of equity until full or partial disposal of artnet AG ownership interest in Artnet Corp. In 2017, currency exchange effects in the amount of 196k were recognized as a net investment in other comprehensive income, which increased the equity (2016: 52k EUR decreasing equity). In total, the amounts recorded directly in equity total to 72k EUR as of December 31, 2017 (December 31, 2016: 292k EUR).

The following table details the Group's sensitivity to a 10% increase and decrease of the US dollar against the euro and the

British pound. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the balance sheet date in accordance with a 10% change in foreign currency rates. Included in the chart is also the exchange rate risk, as mentioned above from the intragroup receivables. A positive number below indicates an increase in profit and other equity.

Against USD	EUR 12/31/2017 k EUR	EUR 12/31/2016 k EUR	GBP 12/31/2017 k EUR	GBP 12/31/2016 k EUR
+10%				
Result	(94)	(137)	(14)	(34)
Equity	73	91	(2)	(1)
-10%				
Result	115	167	17	41
Equity	(89)	(111)	3	1

The value of the US dollar against the euro fell by 12.3% from 0.950 EUR on December 31, 2016 to 0.833 EUR on December 31, 2017.

Interest Rate Risk

The finance leases of the Group bear a fixed interest rate. As of December 31, 2017, there are no liabilities with a floating rate since December 31, 2016. Therefore, the Group is not exposed to an interest rate risk.

18. Share-Based Remuneration

Stock Option Plan

artnet AG provided equity-settled share-based payments to Management and to certain employees of Artnet Corp. in 2009, 2010 and 2014. The equity-settled share-based payments were measured at fair value at the date of the grant. The fair value determined at the grant date, minus the fair value of any consideration received at the grant date, were expensed over the vesting period based on the estimated amount of shares that will eventually vest. The fair value of the equity-settled share-based payments was measured using the binomial model.

Conditional Capital 2009/I served as the basis for the stock option plan—also resolved by the Shareholders' Meeting on July 15, 2009 on the subject of the 2009 stock option plan—and comprised of 560,000 shares of common stock with a nominal value of 1.00 EUR each. The Conditional Capital expired on July 14, 2014.

In 2009, 2010, and 2014, stock options were granted to the Management and employees of the subsidiary Artnet Corp. from the 2009 stock option programs.

	Options		
	2014	2010	2009
Number of Options Granted	75,000	130,000	193,907
Share Price at the Time of Granting (EUR)	2.70	5.03	5.02
Weighted Average Exercise Price (EUR)	2.64	5.13	4.66
Weighted Average Performance Target (EUR)	2.90	5.64	5.13
Average Maturity (Years)	10	10	10
Risk-Free Rate (%)	0.59	1.27	3.40
Expected Average Volatility (%)	65	70	55
Expected Dividend Return	–	–	–
Fair Value of Options at the Time of Granting (EUR)	1.90	3.18	3.89
Fair Value of Options at the Time of Granting Total (EUR)	142,500	413,400	754,298

As of December 31, 2017, the number of outstanding options remained at 398,907. As in the previous year, the outstanding options for 2009 and 2010 could not be exercised, as the market price for the Group's shares were significantly below the respective exercise price. The options granted in 2014 were not chosen to be used in the 2017 financial year. The outstanding options on December 31, 2017, had a weighted average remaining term of 2.91 years (2016: 3.91 years).

The fair value of the stock options was calculated in 2009, 2010, and 2014 from the date on which the options were granted based on the binomial model, on the basis of the assumptions of the chart above. The expense for the stock options granted was fully recognized in the financial years up to 2016.

The options can be exercised for the first time at the end of two years, beginning at midnight on the option allotment date, and then up until the end of their term. The options then expire 10 years after their grant date. Rights may not be exercised in the period from two weeks before the end of the quarter until the end of the first trading day after publication of the quarterly results, and also may not be exercised in the period from two weeks before the end of the fiscal year until the end of the first trading day after publication of the results for the past fiscal year.

The plan also sets out that rights may only be exercised if the closing market price determined before the date of the planned exercise of the option exceeds the exercise price by at least 10%. If this performance target has been reached on one occasion, the options can then be exercised during the exercise periods, independent of further price development of the Group's shares over their term.

Stock Appreciation Rights (SAR)

In 2015, Artnet Corp. launched a Stock Appreciation Rights Program for certain executives. As part of this program, participating employees receive a certain number of rights to benefit from artnet AG's share price increase. The participation rights grant solely a right to cash settlement, not to artnet AG's shares.

On May 18, 2017, the participating employee gave notice to the Company to exercise all 35k Stock Appreciation Rights granted on March 31, 2015. The fair market value was calculated at 3.50 EUR per Stock Appreciation Right. The spread between the exercise price at 2.09 EUR and the fair market value at 3.50 EUR was calculated at 1.41 EUR per Stock Appreciation Right. The total cash payment amounted to 49k EUR for 35k Stock Appreciation Rights, which was less than the provision made in the amount of 54k EUR in previous years.

There are no remaining Stock Appreciation Rights issued from the "Stock Appreciation Rights Program" launched in 2015, and no Stock Appreciation Rights program has been launched since.

19. Personnel Expenses

The consolidated statement of comprehensive income includes personnel expenses of discontinued divisions for the fiscal years stated in the following expense categories:

Personnel Expenses by Expense Category	2017 k EUR	2016 k EUR
Cost of Sales	4,623	3,954
Sales and Marketing	3,746	3,051
General and Administrative Expenses	1,636	1,741
Product Development	1,975	2,573
Total Personnel Expenses	**11,981**	**11,319**

While personnel expenses increased in the operating currency of US dollars by 8% to 13,504k USD (2016: 12,524k USD), it increased in the reporting currency of euros by 6% due to exchange rate effects.

The total personnel costs in the 2017 and 2016 fiscal years include social security expenses of 1,264k EUR and 1,207k EUR, respectively, and a 401(k) expense of 103k EUR and 119k EUR, respectively.

On average, the Group employed 117 full-time employees in 2017, as compared to 113 in the previous year. Additionally, the Group employed five part-time employees in 2017, as compared to two in 2016. In sales and other departments, the Group had six freelancers, as compared to nine in the previous year.

The average number of employees in the 2017 and 2016 fiscal years was 128 and 124, respectively. The employees were engaged in the following activities:

	2017	2016
Cost of Sales	65	58
Sales and Marketing	37	34
General and Administrative Expenses	13	14
Product Development	13	18
Total	**128**	**124**

20. Defined Contribution Plans

The subsidiary Artnet Corp. offers a retirement plan to all qualifying employees, which qualifies under the 401(k) section of the Internal Revenue Code of the United States. The assets of this plan are held separately from those of Artnet Corp., and are managed by a trustee. Participating employees may contribute up to 100% of their annual salary, but not more than statutory limits. Artnet Corp. has a discretionary matching contribution each year. In 2017 and 2016, the matching contributions were 103k EUR and 119k EUR, respectively.

21. Earnings per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of outstanding common shares during the year.

Diluted earnings per share are calculated in the same manner as basic earnings per share, with the exception that the average number of outstanding shares increased with the addition of the potential number of shares from stock option conversions.

The calculation of earnings per share is based on the following:

	2017 EUR	2016 EUR
Numerator (Earnings): Net income for the fiscal year	695,345	633,207
Denominator (Number of Shares): Weighted average number of ordinary shares used to calculate basic earnings per share (issued and fully paid ordinary shares)	5,552,986	5,552,986
Effect of potential dilutive shares from stock options	18,266	–
Weighted average number of ordinary shares used to calculate dilutive earnings per share	5,571,252	5,552,986

The weighted average share price is 4.716 EUR in 2017 (2016: 2.47 EUR).

The weighted average exercise price of the stock options granted (4.43 EUR) exceeds the average share price in 2017 (3.49 EUR), with the exception of the stock options granted in 2014, which have an average exercise price of 2.64 EUR. For the stock options issued in 2014, a dilutive effect of 18,266 shares was calculated using the treasury stock method. Diluted earnings per share of 0.14 EUR equals the undiluted earnings per share.

22. Other Disclosures on the Consolidated Statement of Comprehensive Income

Net Operating Income

The net operating income stated results after the deduction of the following operating expenses:

	2017 k EUR	2016 k EUR
Scheduled Amortization/Depreciation	410	358
Personnel Expenses	11,981	11,319

Scheduled depreciation and amortization are presented in the consolidated statement of comprehensive income as part of the cost of sales. The breakdown of the amortization of intangible assets and tangible assets is listed in sections 6 and 7 of the consolidated notes.

Financial Results

The financial result includes interest expenses for liabilities from finance leases in the amount of 1k EUR (2016: 1k). In 2017, interest expenses were primarily for the payment of commercial rent tax in New York City in the amount of 35k USD. In 2016, the financial result included an interest expense for the repaid shareholder loan in the amount of 7k EUR.

Other Income and Expenses

In 2017, the realized and unrealized gains on currency exchange rates amounted to 130k EUR (2016: currency exchange rate loss in the amount of 111k EUR). In 2016, the non-operating income resulted mainly from the provision amounting to 150k EUR for the German lawsuit regarding a photographer's copyright infringement.

23. Segment Reporting

The Group reports on the operating segments in the same way it reports this information internally to the Management and Supervisory boards.

The Group's reporting is based on the following four segments:

- The artnet Galleries segment, which presents artworks from member galleries and partner auction houses online
- The artnet Price Database segment, comprising all database-related products, including the Price Database Fine Art and Design and the Price Database Decorative Art, as well as the products based thereupon, Market Alerts and Analytics Reports
- The artnet Auctions segment, which provides a platform to buy and sell artworks online
- The artnet News segment, offering an online news service providing information about the events, trends, and people shaping the art market and global art industry

The segment reporting is shown in multilevel Contribution Margin accounting. In the first state, the difference of the generated revenues and the direct variable costs is Contribution Margin I (CM I). In a second step, variable indirect costs, which are not directly attributable to a segment, are subtracted from the CM I by allocating them to the segments with an allocation key. The so-determined Contribution Margin II (CM II) is the amount available by segment to cover the fixed costs.

Management decisions for segments are based on the CM

II (revenue minus direct and indirect variable costs), which is therefore presented below as the segment result. Indirectly attributable expenses are allocated to the segments using the ratio of headcounts and revenue for each segment. The segment reporting is presented, similarly to the internal communication, in US dollars.

At the beginning of 2017, to continue properly allocating the direct and indirect costs, the Group has determined to allocate the indirect marketing costs evenly among all segments. In addition, the Group has decided to record the bad debt reserve expenses by each segment instead of a percentage-to-revenue ratio. Management considers the CM II to better express a better picture of the profitability of each segment.

An allocation of assets or liabilities for each segment is not provided to Management. Therefore, segment-related assets and liabilities are not presented in this report.

2017	Revenue k USD	Contribution Margin II k USD
artnet Galleries	6,147	2,996
artnet Price Database	7,829	4,313
artnet Auctions	4,051	(199)
artnet News	2,742	(8)
Total	**20,769**	**7,102**

2016	Revenue k USD	Contribution Margin II k USD
artnet Galleries	6,492	3,551
artnet Price Database	7,600	4,682
artnet Auctions	3,205	(140)
artnet News	1,940	(601)
Total	**19,237**	**7,491**

As mentioned above, the Group decided to change the process of allocating and recording indirect marketing costs and bad debt reserve expenses in January 2017. To accurately allow for the year-over-year segment report comparison, the 2016 information was adjusted to reflect these changes retroactively. Due to this retroactive adjustment, the CM II for artnet Galleries increased from 3,466k USD to 3,551k USD and the artnet Price Database CM II increased from 4,480k USD to 4,682k USD. Meanwhile, the CM II decreased for artnet Auctions from -64k USD to -140k USD and for artnet News from -391k USD to -601 USD.

The reconciliation of the CM II to the operating income of the Group is presented in the following table::

Reconciliation of Segments Contribution Margin II to the Operating Income	2017 k USD	2016 k USD
Contribution Margin II	7,102	7,491
Fix Costs included in Sales Expenses Including Depreciation 463,000 USD (Previous Year: 403,000 USD)	2,328	2,246
Fix Costs included in General and Administrative Expenses	3,821	3,966
Fix Costs included in Product Development Expenses	546	566
Operating Income	**407**	**713**

Advertising revenue will now be allocated to the segments where banners have been placed. The following table reconciles the advertising revenue in the consolidated statement and the presentation in the segment reporting:

2017	Revenue in Consolidated Income Statement k USD	Allocated Advertising Revenue k USD	Revenue by Segment k USD
Segments			
artnet Galleries	5,162	985	6,147
artnet Price Database	7,445	384	7,829
artnet Auctions	4,040	11	4,051
artnet News	–	2,742	2,742
Allocated Advertising Revenue	4,122	-4,122	–
Total	**20,769**	**–**	**20,769**

2016	Revenue in Consolidated Income Statement k USD	Allocated Advertising Revenue k USD	Revenue by Segment k USD
Segments			
artnet Galleries	5,257	1,235	6,492
artnet Price Database	7,254	346	7,600
artnet Auctions	3,195	10	3,205
artnet News	–	1,940	1,940
Allocated Advertising Revenue	3,531	(3,531)	–
Total	**19,237**	**–**	**19,237**

The subsequent adjustments for receivables as non-cash expenses are affecting the result of each segment. The allocation of scheduled depreciation and amortization to each segment is reported to the Management and the Supervisory Board on a regular basis:

2017 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
artnet Galleries	126	94
artnet Price Database	148	94
artnet Auctions	122	109
artnet News	67	–
Total	**463**	**297**

2016 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
artnet Galleries	121	81
artnet Price Database	126	81
artnet Auctions	96	128
artnet News	61	–
Total	**403**	**290**

The adjustment made for 2016 changed the allowance for bad debt for artnet Galleries from 84k USD to 81k USD, the artnet Price Database from 90k USD to 81k USD, artnet News from 27k USD to zero, and artnet Auctions from 39k USD to 78k USD, respectively.

24. Information by Geographic Region

The Group's operations are primarily located in the United States, represented by the subsidiary, Artnet Corp.

The following table provides an analysis of the Group's revenue by geographic market:

Revenue	2017 k EUR	2016 k EUR
US	10,427	9,939
Europe	6,014	5,651
Other	1,985	1,796
Total	**18,426**	**17,386**

Almost all of the Group's assets, including both tangible and intangible assets, are located in the United States.

As in the previous year, the Group's scheduled depreciation and amortization amounting to 410k EUR, is mainly allocated to assets in the United States (2016: 358k EUR).

25. Operating Leases

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the term of the lease. Benefits are spread over the lease term on a straight-line basis, as an incentive to enter into an operating lease.

Artnet Corp. has rented its offices in New York as part of an irredeemable lease (operating leases) with a term extending through April 30, 2023.

For the Berlin office, the Group has agreed on a lease for two years in 2015. The lease includes an option to extend for an additional year. The office lease for artnet UK Ltd. in London can be terminated at any time.

As of both December 31, 2017 and 2016, the following future minimum lease payments result from existing office lease agreements:

Lease Payments	2017 k EUR	2016 k EUR
Expiring in Less Than One Year	855	937
Expiring Between Two and Five Years	3,486	3,878
Expiring in More Than Five Years	305	1,377
Total	**4,646**	**6,193**

Office lease expenses for the Group in 2017 and 2016 amounted to 887k EUR and 874k EUR, respectively.

26. Auditor's Fees

Auditor's fees, including travel expenses for the audit of the statutory financial statements of the Company and the consolidated financial statements, amounted to 71k EUR in 2017 and 63k EUR the previous year. In addition, the Company recorded 18k EUR in 2017 and 19k EUR in 2016, for other services. All fees are recognized as expenses in 2017 and 2016, respectively.

27. Related-Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Management Board

Jacob Pabst is the CEO of artnet AG and Artnet Corp.

In the 2017 and 2016 fiscal years, Jacob Pabst received the following remuneration from the Group:

	2017 k EUR	2016 EUR
Fixed Salary	322	316
Value of Additional Payments (Health Insurance)	12	12
Fixed Remuneration Components	334	328
Bonus (Variable Compensation)	33	
Total	**367**	**328**

Supervisory Board

In the 2017 fiscal year, the following people were Supervisory Board members:

- Hans Neuendorf, Berlin, Germany, chairman since May 10, 2017, previously deputy chairman
- Andreas Langenscheidt, Munich, Germany, chairman until May 10, 2017
- Dr. Bernhard Heiss, Munich, Germany, deputy chairman since May 10, 2017, previously member
- Dr. Kilian Jay von Seldeneck, Berlin, Germany, member since May 10, 2017

Shareholdings of Supervisory Board members:

Dr. Bernhard Heiss holds 689,889 shares of artnet AG.

Dr. Kilian Jay von Seldeneck holds 1,000 shares of artnet AG.

Remunerations in the following amounts were paid to the members of the Supervisory Board in the 2017 and 2016 fiscal years:

	2017 k EUR	2016 k EUR
Hans Neuendorf	45.5	38
Andreas Langenscheidt	18.0	23
Dr. Bernhard Heiss	33.0	12
Dr. Kilian Jay von Seldeneck	16.0	–
John D. Hushon	–	38
Piroschka Dossi	–	19
Total	**112.5**	**129**

The remuneration report outlines the principles used for determining the compensation of the Supervisory Board of artnet AG. In addition, the report describes the policies and levels of compensation paid to Supervisory Board members.

Other Transactions with Related Parties

In 2017, Hans Neuendorf did not sell any items on artnet Auctions. However, in 2016 one item was sold on the platform. In accordance with the terms and conditions, no commission was charged for the sale in 2016 as the value of the artwork exceeded 10k USD.

The main shareholder of the Company, Hans Neuendorf, had granted a loan at better-than-market conditions in the amount of 500k EUR on March 28, 2013. The loan, which was subject to a floating interest rate (30-day LIBOR plus 200 basis points) with a minimum rate of 4% per year, was not collateralized and repaid in full in October 2016. In 2016, interest in the amount of 7k EUR was recorded as an expense.

The related parties of Mr. Neuendorf (deputy chairman) and the related parties of Mr. Pabst (CEO) worked or provided services totaling in the amount of 251k EUR in 2017 and 173k EUR in 2016, respectively, at market conditions.

On January 16, 2017, a consulting agreement was executed with Galerie Neuendorf AG for six months and later extended until July 31, 2018. Mr. Neuendorf is the CEO of Galerie Neuendorf, and based on this agreement, Mr. Neuendorf shall provide ongoing strategic advice concerning further development and expansion of the company. In 2017, Mr. Neuendorf was paid 334k EUR.

28. Accounting Estimates and Judgments

The preparation of the Group's consolidated financial statements requires Management estimates and assumptions that affect reported amounts and related disclosures. All estimates and assumptions are made to the best of Management's knowledge in order to fairly present the Group's financial position and results of operations. Actual results and developments may deviate from current assumptions.

The following accounting policies are significantly impacted by Management's estimates and judgments:

Deferred Tax Assets

At each balance sheet date, the Group assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets. This assessment requires the exercise of judgment on the part of Management with respect to benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The amount of deferred tax assets could be reduced if projected future taxable profits are lowered.

Capitalized Costs of Website Development

Capitalized website development costs relate to new products, material additions, or improvements that the Company anticipates will produce revenue in the future. The revenue and cost projections for these new products and developments are based on Management's best estimates, but actual results could vary from projections.

Provisions

Based on reasonable estimates, provisions for possible legal issues will be recorded. Opinions from external experts such as lawyers or tax consultants will be considered for such evaluations. Any differences between the original estimate and the actual outcome in the respective period can have an impact on the net assets, financial position, and results of operations of the Group.

For current provisions, a cash outflow is anticipated for the 2018 fiscal year, with an exception for the provision in the amount of 895k EUR (2017: 850k EUR), including interest, for litigations in France in connection to a copyright infringement claim by a photographer. Aside from all legal remedies, the Group continues its efforts to achieve a settlement with the photographer. Considering all available options, the Group does not believe a full payment of damages, for which provisions were made, will be required in 2018. There are significant uncertainties regarding the question of when and how much of a payment could be required in this case.

29. Significant Events After the Balance Sheet Date

There were no reportable events of significance after the balance sheet, as of December 31, 2017 to March 20, 2018, that could have a material impact on the Group's financial position or results of operations.

30. Notifications According to the Wertpapierhandelsgesetz (WpHG - German Securities Trading Act)

According to § 21 WpHG, shareholders are required to report when the level of their shareholdings exceed or fall below certain thresholds. The thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75%. The voting right notifications received by the Company during the year under review, are available on artnet's website at artnet.com/investor-relations/voting-rights-notifications.

Announcement Date:	**Person or entity subject to the notification obligation:** *(Complete chain of subsidiaries starting with the top-ranking controlling person or the top-ranking controlling company):*	+ = exceeding – = reduction	Threshold %	Date on which threshold was crossed or reached	% of voting rights attached to shares	Direct voting rights (§21 WpHG)	Indirect voting rights (§22 WpHG)	Comment
4/6/2017	**Dr. Bernhard Heiss**	+	5	4/1/2017	9,49	534,137	0	Off-exchange acquisition of a total of 448,289 shares, of which 155,752 shares delayed the settlement process (transfer of shares from another European country).
4/6/2017	**Dr. Bernhard Heiss**	+	10	4/6/2017	12,25	689,889	0	
4/6/2017	**Hans-Herbert Döbert**	-	3, 5	4/1/2017	0	0	0	
4/10/2017	**Hans-Herbert Döbert**	-	3, 5	4/1/2017	2,77	155,752	0	Correction of a notification published on 4/6/2017.
5/3/2017	**Rüdiger K. Weng**	+	3	5/2/2017	3,02	170,100	0	
6/2/2017	**Hans Reinhard Neuendorf**	-	3, 5, 10, 15, 20	10/10/2016	0	0	0	Absence of attribution due to dominant influence.

Berlin, March 20, 2018

Jacob Pabst
CEO, artnet AG

This is a translation of the original auditor's report in German. Solely the original text in German language is authoritative.

Independent Auditor's Report

To artnet AG, Berlin

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of artnet AG and its subsidiaries (the Group or artnet), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of artnet AG for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements, we have not audited the content of the declaration on corporate governance according to § 315d HGB [Handelsgesetzbuch: German Commercial Code] referenced in the group management report and posted on the Group's website.

In our opinion, on the basis of the knowledge obtained in the audit:

- The accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- The accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with the German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the declaration on corporate governance according to § 315d HGB referenced in the group management report and posted on the Group's website.

Pursuant to § 322 Abs. 3 Satz 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" and of the "Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following, we present key audit matters:

1) Revenue recognition and deferred revenue
2) Deferred taxes on loss carryforwards
3) Capitalization of development costs

Re 1) Revenue Recognition and Deferred Revenue

a) Financial Statement Risk

For the financial year from January 1, 2017 to December 31, 2017, the Group reports revenue of 20,769k USD (18,426k EUR). Also, as of December 31, 2017, payments of 1,826k USD (1,522k EUR) are recorded as liabilities from deferred revenue. In particular, artnet offers contracts for art market related IT services with different term periods, for which customers make regular advanced payments. The Group also generates revenue from brokering contracts for the purchase of artworks and from the publication of advertising on its website.

The information provided by the Company regarding revenue recognition and deferred revenue is presented in the notes, 14. Deferred Revenue and Revenue Recognition to the consolidated financial statements and in the sections Result of Operations and Revenue Growth in the economic report of the group management report.

Revenues are recognized at the time the contractual obligations are fulfilled. In the case of service contracts, the Group recognizes revenue on a linear basis over the term of the respective contracts, by reversing the corresponding liabilities from deferred revenue. For the calculation of the reversal amounts both commercially available, ERP systems, as well as proprietary applications are used.

The risk for the financial statement consists of an inappropriate presentation of revenue recognition and thus, in particular, of an understatement of liabilities from deferred revenue. In our view, revenue recognition was of particular importance for our audit due to the required deferral, the high number of transactions, and its crucial importance for capital markets communication.

b) Review Procedure and Conclusions

Based on a comprehensive system survey, we have assessed the adequacy of the accounting process for revenue recognition and its implemented controls. Building on this, we have, as part of our saudit, randomly tested material controls for their effectiveness. We have acknowledged whether the accounting process ensures the amount and timing of revenue recognition. Furthermore, we have examined every sample as to whether the accounting process provides appropriate revenue recognition per the underlying contracts. Also, based on data analysis we examined, the complete and accurate transfer of accounting-related information between the different IT systems is correct in the financial reporting.

We have determined that the systems, processes, and controls for the recognition of revenue and deferred revenue are suitable in guaranteeing the appropriate presentation of revenue recognition. In our review of the effectiveness of controls, no objections arose regarding the implementation of the controls.

Re 2) Deferred Taxes on Tax Loss Carryforwards

a) Financial Statement Risk

In the consolidated financial statements of artnet AG and in the consolidated balance sheet as of December 31, 2017, deferred tax assets of 1,201k USD (1,001k EUR) are reported, which are almost completely attributable to tax loss carryforwards of the subsidiary Artnet Worldwide Corporation (AWC) in the United States.

The statements by the Company regarding deferred taxes on loss carryforwards are included in the note, 8. Taxes and Deferred Taxes to the consolidated financial statements and in the sections Group Profit or Loss and Financial Status of the economic report of the group management report.

The recoverability of deferred tax assets on loss carryforwards is assessed on the basis of forecasts about future taxable profits. In our point of view, deferred tax assets were of particular importance since the approach to, and the valuation of, this significant item is to a large extent based on assessments and assumptions made by the executive directors. Also, the complexity of valuing deferred tax assets increased as of December 31, 2017, as a result of the gradual expiration of loss carryforwards in the years ahead and the effects of the tax reform enacted before the reporting date in the United States.

b) Review Procedure and Conclusions

The amount of capitalized deferred taxes on loss carryforwards is based on the current planning of taxable profits which is derived from the corporate three-year plan set by the Management Board. We have determined the adequacy of the assumptions by reconciling them with general and industry-specific market expectations and by taking into account the budget history of the previous fiscal years. Furthermore, we understood the adjustments of assumptions due to the US tax law. Also, we acknowledged whether the gradual expiration of loss carryforwards for federal taxes, in accordance with US tax law, and the effects of the adopted tax reform in the US, had been appropriately considered.

We understood the assumptions and discretionary decisions made by the executive directors regarding the approach to, and valuation of, deferred taxes. The valuation of deferred tax assets was made on an appropriate basis.

Re 3) Capitalization of Development Costs

a) Financial Statement Risk

In the consolidated financial statements of artnet AG as of December 31, 2017, intangible assets in the amount of 1,568k USD (1,307k EUR) are reported. In the 2017 financial year, development costs of 874k USD (729k EUR) were capitalized for the first time. These are attributable in particular to the development of products and website updates of the Group.

The Company statements regarding capitalized development costs are included in the notes, 2. Summary of Significant Accounting Policies and 7. Intangible Assets to the consolidated financial statements and in the sections Changes in Costs and Results and Financial Status in the economic report and Research and Development of the group management report.

Initially, artnet AG identifies development projects that fulfill the requirements for capitalization in accordance with IAS 38 in conjunction with SIC 32. Based on specific milestones, these projects are then divided into a research phase and development phase (the stages of development of a website). Afterwards, to determine the amount to be capitalized, the personnel expenses for in-house programmers and the expenses for external consultants incurred during the development phase are allocated to the identified projects.

In our view, the capitalized development costs were of particular importance as the approach to, and the valuation of, this significant item was to a great extent based on assessments and assumptions by the Company.

b) Review Procedure and Conclusions

For all development projects viewed as capitalizable by the Management Board, we have reviewed those decisions by examining individual cases to confirm whether criteria have been met. The review of individual cases was based in particular on discussions with the head as well as the staff of the Product Development Department. Also, we have acknowledged the decision to capitalize with the support of in-house presentations, which outline the goal and purpose of the respective development projects and their benefits for the Group.

We have assessed the adequacy of the accounting process for determining capitalized expenses based on a comprehensive system survey and the acknowledgement of implemented controls.

In individual cases, we matched capitalized personnel expenses to payroll accounting and external costs to invoices.

We are convinced that the assumptions and assessments made by the executive directors regarding the fulfillment of criteria for capitalized development projects are sufficiently documented and justified. The valuation of the capitalized development projects was made on a transparent basis.made by the executive directors regarding the approach to, and valuation of, deferred taxes. The valuation of deferred tax assets was made on an appropriate basis.

Other Information

The executive directors are responsible for the other information.

The other information comprises:

- The declaration on corporate governance referenced in section 4. Information on Management Practices Applied (§ 289f and § 315d HGB) in the group management report and posted on the Group's website,
- The corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code,
- The confirmation pursuant to § 297 Abs. 2 Satz 4 HGB regarding the consolidated financial statements and the confirmation pursuant to § 315 Abs. 1 Satz 5 HGB regarding the group management report, and
- The remaining parts of the Annual Report, with the exception of the audited consolidated financial statements, group management report, and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently, we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing so, to consider whether the other information:

- Is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or,
- Otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue an ongoing concern. They also have the responsibility for disclosing, as applicable, matters related to ongoing concerns. In addition, they are responsible for financial reporting based on the ongoing concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems), as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and whether the group management report, as a whole, provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. 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 override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express [audit] opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate

audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on May 10, 2017. We were engaged by the Supervisory Board on December 7, 2017.

We have been the Group auditor of artnet AG without interruption since the 2002 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Till Kohlschmitt.

Hamburg, March 20, 2018

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dirk Schützenmeister	Till Kohlschmitt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

artnet AG
Supervisory Board
Hans Neuendorf, Chairman
Dr. Bernhard Heiss, Deputy Chairman
Dr. Kilian Jay von Seldeneck
Management Board
Jacob Pabst, CEO

Artnet Worldwide Corporation
Jacob Pabst, CEO

artnet UK Ltd.
Jacob Pabst, CEO

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Investor Relations

You can find information for investors and the annual financial statements at artnet.com/investor-relations.

If you have further queries, please send an email to ir@artnet.com, or send your inquiry by mail to one of our offices.

German Securities Code Number

The common stock of artnet AG is traded on the Prime Standard of the Frankfurt Stock Exchange under the symbol "ART." You can find notices of relevant company developments at artnet.com/investor-relations.

Wertpapierkennnummer

WKN	A1K037
ISIN	DE000A1K0375
LEI	391200SHGPEDTRIC0X31

Concept and Production
Artnet Worldwide Corporation

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