artnet AG

Annual Report 2018

Key Financial Figures for the artnet Group

	12/31/2018	12/31/2017	Difference (Balance)
Revenue (k USD)	21,615	20,769	846
Profit from Operations (k USD)	905	407	498
Earnings Before Tax (k USD)	819	472	347
Earnings per Share (USD)	0.22	0.14	0.08
Weighted Number of Shares (k USD)	5,553	5,553	–
Cash Flow from Operating Activities (k USD)	1,254	1,212	42
Staff (Year End)	131	122	14
Cash and Cash Equivalents (k USD)	957	1,328	(371)
Equity (k USD)	3,371	2,035	1,336
Total Assets (k USD)	8,700	6,902	1,798

Development of the artnet AG Share 1/1/2016–12/31/2018

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Dear Shareholders,

Jacob Pabst
CEO, artnet AG

Three decades ago, artnet started a revolution. Our Price Database, the first of its kind, brought price transparency to an opaque art market. It quickly became the industry's gold standard, and today it features more than 12.5 million auction results and continues to offer a highly reliable and accessible way to assess the value of art.

artnet disrupted other market segments as well: The Gallery Network allows galleries to promote their artists to our vast online global audience; artnet Auctions pioneered an easy, quick, and cost-effective way to buy and sell fine art online, allowing for previously unknown liquidity in the secondary art market; artnet News became the art world's leading digital news platform and changed the perception and analysis of the events, trends, and people shaping the art world.

In 2018, artnet continued to expand its market share, remaining as the leading data and analytics provider, and the only dedicated online auction platform for fine art. At the same time, artnet News further broadened its audience and reach. The Group's revenue grew by 4% to a record 21.6 million USD, as compared to 2017. Operating income for the Group increased by 122% to 905k USD.

This growth was powered by the strong performance of the Price Database, increased revenue from Galleries, as well as high demand for advertising space on artnet News. At Auctions, the strategic realignment and increased focus on higher-quality lots is bearing fruit: The fourth quarter was the strongest quarter since the inception of the platform in 2008 and contributed to the Group's best quarter ever. Additionally, Auctions became profitable for the first time in 2018.

Overall, the international auction market remained healthy and was particularly robust in the US, our biggest market. However, economic uncertainties in the world's dominant art markets are growing despite a continued economic expansion. In 2018, rising interest rates in the United States, global trade wars between the US and China in particular, and concerns surrounding the anticipated separation of Great Britain from the European Union began to cause distortions in the global economy and financial markets. This has negatively affected the share prices of technology stocks, including artnet.

The Price Database, our core segment, remains an indispensable tool for market participants. Revenue in 2018 increased by 3% to 7.7 million USD and hit another record, due to the highest subscriber growth since 2015. The unique quality of our data also contributed to the success of the inaugural artnet Intelligence Report, published for the fall auction season. The Price Database's art historians and journalists from artnet News produced this comprehensive study of current trends in the art market. It is just one of many examples of new initiatives leveraging the synergies of our broad product portfolio and expertise.

artnet News is firmly established as the art world's leading online source for exclusive stories and in-depth commentary. Its popularity has strengthened the artnet brand, and has contributed more than two-thirds of our overall advertising sales. Our original reporting sparked debates in the industry, in turn increasing page visits and making News a sought-after advertising platform for luxury brands and art-related businesses, such as auction houses, galleries, art fairs, insurers, and shipping companies. As a result, total advertising revenue increased by 9% to 4.5 million USD.

Journalistic highlights in 2018 included an interview with the influential art dealer José Freire, which started an industry-wide conversation about the sustainability of the business model of art fairs. Our writers exposed the dysfunction at the Museum of Contemporary Art (MOCA) in Los Angeles that led to the dismissal of star curator Helen Molesworth, and our critic's assessment of the portraits of Barack and Michelle Obama in the National Gallery became one of the most-read reviews in the history of artnet.

Traffic across all our domains increased by 18%. WeChat, the leading social media, messaging, and mobile payment app in Asia, and our gateway to China, also increased in traffic. On this platform, we doubled daily traffic and grew our number of followers by 50%. More than 100 new registrations on artnet Auctions came through WeChat in China—a market in which we are steadily expanding.

The Gallery Network grew revenue by 4% to 5.4 million USD. While the total number of memberships decreased year-over-year, we continue to see a considerable shift to higher-tier membership plans. In 2018, we redesigned the gallery profile pages enabling galleries to manage their online inventory more easily. We continue to support and foster smaller and mid-size galleries in their daily struggle with high operational costs and demanding art fair schedules in light of a softening economy.

artnet Auctions confirmed the strong growth seen in the previous year. Fee-based revenue increased overall by 1% to 4.1 million USD. We sharpened our focus on high-quality lots, even if that means we have to turn down artworks offered to us. Additionally, we decreased more labor-intensive private sales to focus on online-only auctions. Following this shift, the transaction volume for lots offered and sold online rose by more than 15%. The average lot price increased by 17% to more than 14k USD, accompanied by a surging sell-through rate. This very healthy development proves the scalability of our auction business.

In 2018, the quality initiative at artnet Auctions led to several world auction records. A painting by the Neo-Expressionist Eric Fischl, *The Visit 1 (Originally the Oracle)*, 1981, sold for 525,000 USD—to date our second-highest selling work after Andy Warhol's *Flowers*, which sold for 1.3 million USD in 2011. Our top-performing artist was the late

Canadian-American street art pioneer Richard Hambleton, with a total of 1.4 million USD in sales. Works by the fellow street artist Banksy also topped 1.0 million USD in sales, almost doubling the sales from last year.

The Hambleton success story exemplifies the strength of our online auctions model: After the artist died in October 2017, we were able to act quickly on the increasing demand for his artworks, leveraging our reputation to source many of his pieces and bringing them to market in a very short period of time. Market participants increasingly embrace online auctions as an economical, fast, and flexible way to trade high-quality works of art. Our sales provide ample liquidity to the secondary market and liberate art traders from the confinement of the traditional spring or fall auction seasons.

Three decades after the founding of artnet, our position in the industry is as strong as ever. Faced with competition from well-funded and aggressive startups, we continue to invest in talent and technology. Project FALCON, our wide-ranging initiative to revamp artnet's site and technology infrastructure, is on track and will make our Company much more agile, faster, and efficient upon its completion.

Over the past 30 years, we have become the art market's leading online provider of information, analytics, and online sales, offering clients an unprecedented range of superior products and solutions. The growing popularity of online auctions, coupled with the ever-increasing demand for quality information and analysis, will further drive our business. The spirit of innovation and excellence at artnet prevails. For the coming decades, we are looking forward to continued leadership and growth.

Berlin, March 18, 2019

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 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 355,000 artists and designers. Since 2009, the Price Database Decorative Art has provided results for international antique auctions. Today, the Price Database contains over 12.5 million auction results from more than 1,800 international auction houses, dating back to 1985.

Another pillar of the business is the Gallery Network, which was introduced in 1995. With approximately 1,100 galleries and over 210,000 artworks by nearly 22,000 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 Corporation, 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 statutes and supervised management. In the 2018 financial year, and up until the publication of the Annual Report 2018, the Supervisory Board held five meetings in which all Supervisory Board members participated in full. The meetings were held on March 5, 2018 (conference call), March 20, 2018 (conference call), May 9, 2018 (inaugural meeting), August 13, 2018 (attendance meeting in Berlin), and November 28, 2018 (attendance meeting in Berlin with the Management Board). On March 19, 2019, the balance sheet approval meeting was held with the auditing and tax consulting firm Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, via conference call.

During the 2018 financial year, the members of the Supervisory Board changed. Dr. Kilian Jay von Seldeneck resigned on April 30, 2018 for personal reasons and Dr. Bernhard Heiss resigned on June 13, 2018 also for personal reasons. Dr. Jay von Seldeneck was replaced as a member of the Supervisory Board by Ms. Bettina Böhm. On May 8, 2018, Ms. Böhm was judicially appointed as a member of the Supervisory Board of the Company until the next Annual General Meeting, and was subsequently elected to the Supervisory Board at the Annual General Meeting on May 9, 2018. Dr. Heiss was replaced as a member of the Supervisory Board by Dr. Pascal Decker. Dr. Decker was judicially appointed as a member of the Supervisory Board of the Company on August 8, 2018 until the next Annual General Meeting. In the 2018 financial year, Mr. Jacob Pabst was the sole member of artnet AG's Management Board.

Throughout the year, the Supervisory Board regularly received detailed information from the Management Board in verbal and written reports on the course of business, the corporate strategy, and essential measures. A crucial part of this information were the management reports, which the Management Board sent to all members of the Supervisory Board each month. Monthly reports, quarterly reports, as well as the semi-annual reports on the general business development and the development of the individual segments were discussed with the Management Board. The Management Board regularly discussed issues of fundamental importance to business policy and corporate strategy with the Supervisory Board.

The Supervisory Board addressed the development of all segments, in particular the newer segments, artnet Auctions and artnet News. The Supervisory Board discussed the liquidity situation regarding the significant claim for damages by a photographer, possible financing, and the budget for the 2019 financial year, as well as expenses for project FALCON, the expected increase in efficiency, and critical new recruitments. Questions of corporate governance and compliance were also addressed. The declaration of conformity with the German Corporate Governance Code was adopted. The Supervisory Board has not formed any committees.

The annual financial statements (HGB) and the consolidated financial statements (IFRS) of artnet AG, together, with the Management Report of artnet AG and the Group Management Report, were audited by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg.

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 results of operations for the financial year and issued an unrestricted audit opinion in each case. After completing their assessment, the auditors attended a Supervisory Board meeting to discuss the financial statements and explain the results of their audit. The Supervisory Board concurred with their findings.

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 & Co. KG with a resolution on March 21, 2019.

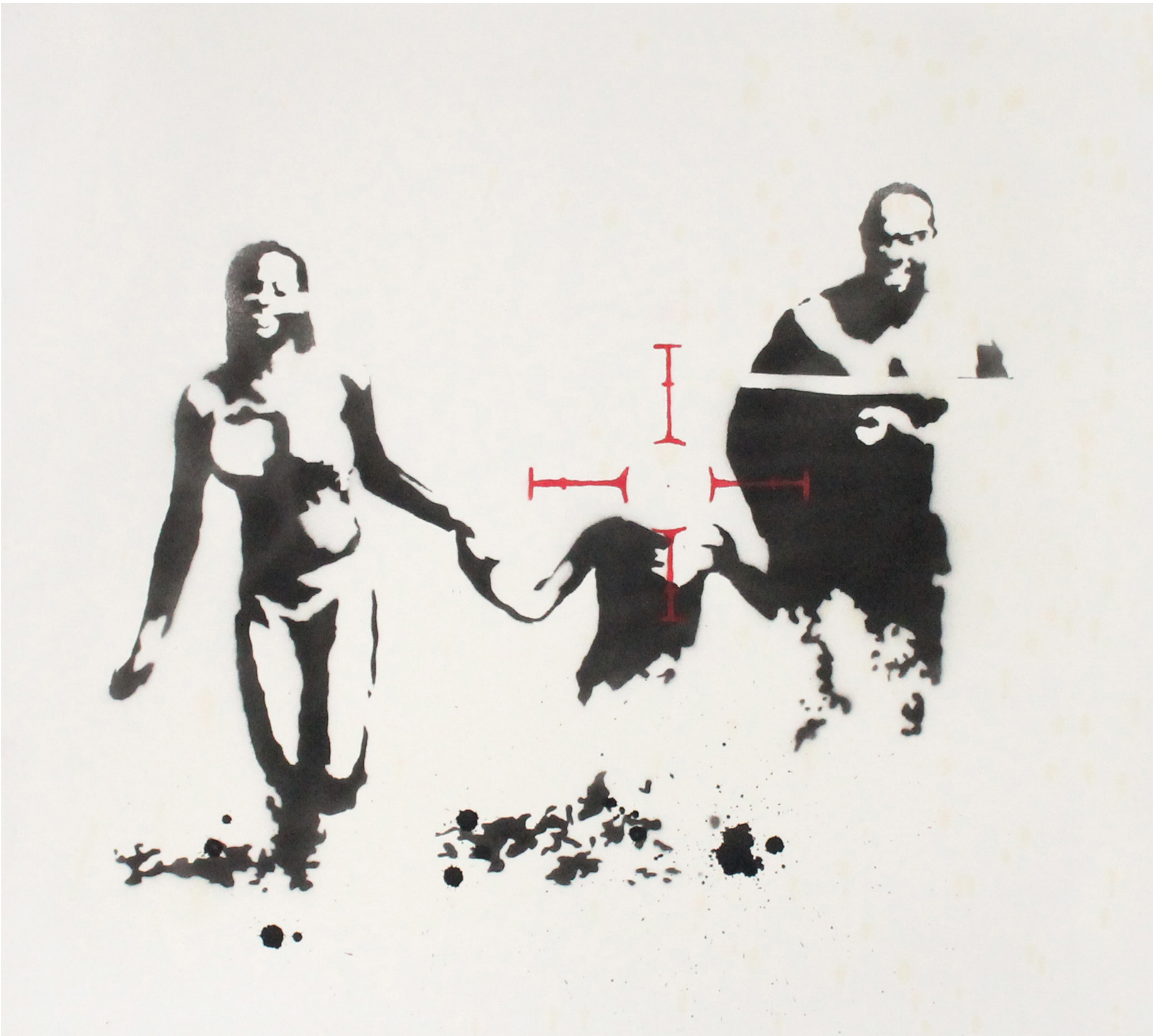
The annual financial statements as of December 31, 2018, were thus adopted. The consolidated financial statements as of December 31, 2018, were also adopted by the Supervisory Board by way of a resolution on March 21, 2019.

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

Berlin, March 22, 2019

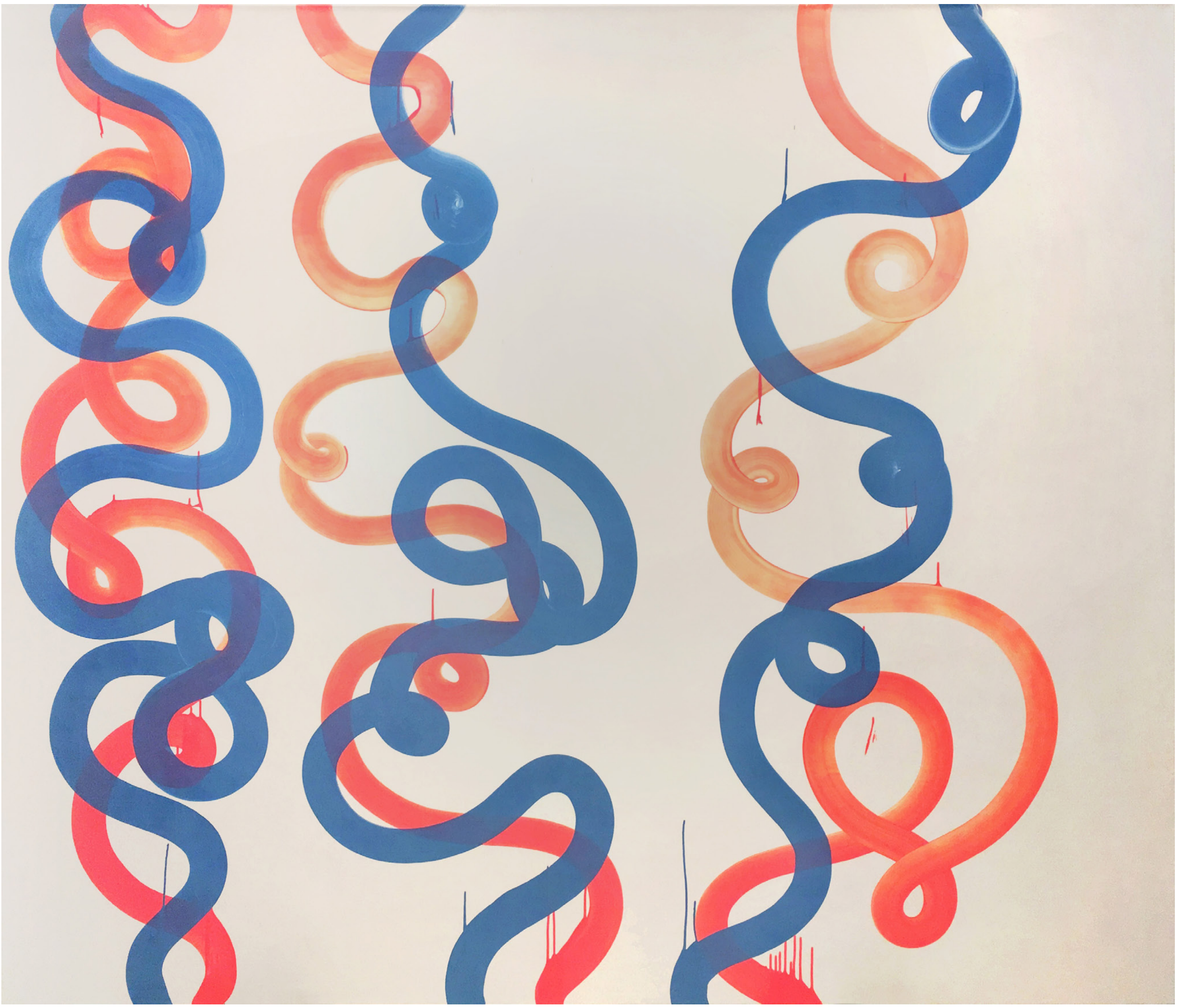
On behalf of the Supervisory Board
Hans Neuendorf
Chairman of the Supervisory Board, artnet AG

Eric Fischl, *The Visit 1 (Originally The Oracle)* (1981)
Sold for 525,000 USD (with premium) on May 16, 2018



Banksy, *Family Target* (2003)
Sold for 168,000 USD (with premium), a world auction record for the artwork, on October 4, 2018

Richard Hambleton, *Untitled* (1986)
Sold for 216,000 USD (with premium) on June 27, 2018



Sue Williams, *New Painting / Pink and Blue* (2002)
Sold for 120,000 USD (with premium) on May 16, 2018

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 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, 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 5k EUR during the calendar year. On March 22, 2019, the Management Board and Supervisory Board held no 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 Governance 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 January 30, 2018. The Management Board and Supervisory Board of artnet AG complied with the 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: The Code recommends to set up a Compliance Management System and disclose its main features.**

   In the 2016 fiscal year, Management set up a compliance management system for its employees. The principles of this compliance management system have been disclosed 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 18, 2019

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 18, 2019

Jacob Pabst
CEO, artnet AG

Group Management Report 2018

1. General Information and Business Activities

Business Model and artnet Group Organization

artnet AG is a holding company listed on the "Geregelten 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 3 million visitors to its domains (2017: 2.6 million per month), artnet.com, artnet.com/auctions, artnet.de, artnet.fr, and news.artnet.com, artnet offers a comprehensive art market overview. The provision of timely information about artists, galleries, price developments, exhibitions, news, and reviews enables art enthusiasts, 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 12.5 million (2017: 11 million) color-illustrated auction results from more than 1,800 (2017: 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, as well as 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, indices, and art categories.

The Gallery Network represents approximately 1,100 (2017: 1,200) of the world's most prestigious galleries from 60 countries. Members of the Gallery Network are indexed by specialty and location, with approximately 210,000 (2017: 190,000) artworks by 22,000 (2017: 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 dedicated 24-hour international online 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's main objective has always been to overcome inefficiencies in the art market through technology and the unparalleled reach the internet offers. artnet's products help provide transparency, insights, fast transactions, liquidity, and more. Using cutting-edge technology, artificial intelligence, and a dedicated team of specialists and experts, artnet will continue to transform the art market.

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 and revenue were compared to budgets and numbers from previous years, and determined as key financial data. Earnings before interest and taxes (EBIT) are of major importance to the result of operations. Regarding the financial position, the Group focuses on the availability of liquid assets. Therefore, the financial performance indicators within the meaning of DRS 20 are revenue and operating results.

Furthermore, non-financial early 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, amongst other indicators, are measured. An 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 and product. This analysis continues to grow in importance for billing advertising contracts based on traffic performance.

In addition, the number of employees is one of the non-financial performance indicators. Since these performance indicators are more difficult to predict, they are not included in forecast reporting.

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.

In 2018, artnet began improving its IT infrastructure with 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. These developments should lead to lower operational costs and increased productivity, as well as improved efficiencies.

2. Economic Report

2.1 Macroeconomic and Industry Conditions

Global Economic Situation

The global economic expansion has weakened, and risks for a further slowdown have increased. Trade tensions between the United States and China, uncertainties regarding the looming exit of the United Kingdom from the EU (Brexit), increased volatility in financial markets, and concerns about China's economic outlook are clouding economic sentiment. Global economic growth in 2018 will reach 3.7%, according to recent estimates by the International Monetary Fund (IMF)—0.2% weaker than anticipated in April 2018. For 2019, the IMF expects global growth to slowdown to 3.5%, and by 2020, they predict a growth of 3.6%. According to the IMF, intensifying trade tensions and the associated uncertainty could dent business and financial market sentiment, triggering financial market volatility and slowing investment and trade.

The economy of the United States, the biggest market for fine art auctions, continued to expand in 2018. The US economy grew at an estimated rate of 2.9% after expanding by 2.2% in 2017. However, for 2019, the IMF expects the growth rate to decline to 2.5% from recent trade measures, followed by a further softening to 1.8% in 2020, due to the expected unwinding of fiscal stimulus. Financial conditions have tightened, but the Federal Reserve signaled a more cautious approach and a more gradual pace of interest rate hikes in 2019 and 2020.

Economic growth in China, the world's second-biggest art auction market, slowed down from a revised 6.8% to 6.6% in 2018—the weakest pace in almost three decades. For 2019 and 2020, the IMF expects a continuous slowdown to 6.2%, due to financial regulatory tightening and slowing growth of external demands. Lower growth expectations were attributed to adverse effects of tariff actions in the trade dispute with the United States, but are partially offset by policy stimulus measures.

In the United Kingdom, the third largest art market in the world, the expansion rate slowed from 1.8% in 2017 to 1.4% in 2018, the weakest since 2012, as Brexit and global uncertainties weigh on the economy. The IMF estimates economic growth of 1.5% in 2019 and 1.6% in 2020. This projection assumes a final Brexit deal and a gradual transition to the new way of collaboration. As this report was published, no deal had been reached causing prolonged uncertainty.

Growth in the euro area is set to moderate from 1.8% in 2018 to 1.6% in 2019 and 1.7% in 2020. Anticipated growth rates have been lowered for many countries, notably Germany. Weakening expectations for the German economy are due to soft private consumption, subdued foreign demand, and weak industrial production.

Art Market Development

In 2018, the world market for fine art auctions, while typically volatile, performed well overall except in China. According to the most recent Price Database data, global auction sales in 2018 increased by 3.9% to 14.7 billion USD, as compared to the previous year, driven by limited supply and rising prices.

The United States, artnet's core market, was once again the most robust auction market for fine art by a long measure. Sales volume grew by nearly 21% to 6.2 billion USD year-over-year. By contrast, auction sales in China decreased by 17% to 3.6 billion USD. In the United Kingdom, sales volume increased by 11% to 2.8 billion USD—the second continuous year with strong growth in the British market.

Together, the United States, China, and the United Kingdom continue to account for approximately 85% of total sales volume in the global market. The sales volume in the rest of the world decreased by 3% to 2.2 billion USD.

The ongoing trade disputes do not seem to affect the art market directly, but slowing economic activity could cause ripple effects and could negatively affect sales in the future. Additionally, gradually rising interest rates could have an adverse effect on asset prices, including art.

The number of works offered at auction globally decreased by 3%, while the sell-through rate remained at a robust 67%. The constrained supply coupled with high-quality works offered drove prices upward. Works sold at an average price of 59k USD, 7% higher than in the previous year. The increase in the average price was affected by a number of record sales for particular blue-chip artists.

In November, David Hockney's *Portrait of an Artist (Pool with Two Figures)* (1972) sold for 90.3 million USD, breaking the British painter's pre-2018 record of 11.7 million USD. Edward Hopper's *Chop Suey* (1929) sold for 91.9 million USD in November and set a new record for the American artist. The sale of Zao Wou-Ki's *Juin-Octobre 1985* sold for 65.2 million USD in September, which set a new world auction record for the Chinese-French artist.

In May, Amedeo Modigliani's *Nu couché (sur la coté gauche)* (1917) sold for 157 million USD and became the fourth most expensive work of art ever to sell at auction. In the same month, Pablo Picasso's *Young Girl with Basket of Flowers* (1905) sold for 115 million USD, the sixth-highest sum ever paid for a work of art at auction.

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 2018, artnet achieved the highest revenue in the Company's history, the result of a sharpened focus on quality in all segments and a broad-based demand for its products, including trusted auction results in the Price Database, top-tier gallery memberships, in-demand artworks at Auctions, and widely quoted exclusives in artnet News.

In the fourth quarter, artnet Auctions reached the highest quarterly revenue since the launch of the platform in 2008 and showed a positive contribution margin for the first time.

The Group's revenue in the 2018 fiscal year totaled 21,615k USD, an increase of 4% as compared to 2017. Revenue slightly missed the Management Board's projection of 22,000k USD to 23,000k USD, due to lower than expected transaction volumes at Auctions in the first nine months of the year. Income from operations increased by 122% to 905k USD, as compared to 2017 (407k USD), and slightly missed the Management Board's projection of 1,000k USD to 1,500k USD. Overall, the artnet Price Database and Galleries segments achieved strong positive results. artnet News has not yet generated a positive contribution to profits.

Revenue Growth

In 2018, artnet grew its total revenue by 4% or 846k USD to 21,615k USD, as compared to 2017 (20,769k USD), setting another record. Overall growth was driven by a strong performance of the Price Database, increased revenue from Galleries, and a high demand for advertising space on artnet News. As expected, revenue at Auctions temporarily languished in the early part of the year, due to a strategic focus on getting higher-quality works. Following this approach, artworks had to be turned down which resulted to lower sales. The quality initiative yielded the anticipated results: The fourth quarter of 2018 was the most successful since the launch of the platform in 2008, also leading to the highest yearly revenue in the segment's history.

Price Database

The Price Database, artnet's core segment, is an essential and increasingly coveted research tool for art market participants. Due to the highest subscriber growth since 2015, revenue for the Price Database hit a record of 7,664k USD in 2018, an increase of 3%, as compared to the previous year (7,445k USD). The redesign and improved positioning of the product page, including a simplified explanation of its capabilities and an expanded FAQ section, led to higher conversion rates of visitors to the site and continued growth of retail subscriptions. The institutional business also grew as a result of stronger outreach efforts for new sales and subscription renewals.

The unique quality of the Price Database, surpassing 12.5 million auction results in 2018, was further highlighted with the inaugural artnet Intelligence Report, published for the 2018 fall auction season. The comprehensive report of current art market trends was created by the Price Database's art historians, as well as journalists from artnet News, leveraging the synergies of artnet's broad product portfolio and expertise..

Galleries

The Gallery Network, artnet's second largest segment in terms of revenue, has turned its business around and profited from a considerable shift towards top-tier and higher-priced membership plans. In 2018, Gallery Network revenue increased by 4% or 214k USD to 5,376k USD, as compared to 2017 (5,162k USD). Demand for Auction House Partnerships, which grew revenue by 35% or 175k USD to 672k USD, significantly contributed to the overall revenue increase for the Galleries segment in 2018. Building on the success of the Gallery Portal, which allows galleries to efficiently manage and showcase their inventory, artnet redesigned the gallery profile pages to better highlight galleries offerings while providing collectors the most immersive viewing experience possible. The redesign was based on member feedback, whose insights and needs were instrumental in shaping its key features and interface.

However, in light of a softening economy, a significant customer base for artnet, which include smaller and mid-size galleries, continue to struggle with demanding art fair schedules and high operational costs. This led to an overall decrease in memberships year-over-year of 98 galleries.

Advertising

Advertising revenue increased by 9% or 377k USD to 4,499k USD (2017: 4,122k USD), primarily driven by the increasing demand of luxury advertisers for ad space on artnet News. Ad sales to the luxury goods sector grew by 22% and News contributed to 69% of total advertising revenue. The artnet Galleries and Price Database segments contributed 23% and 8%, respectively, of total advertising revenue.

artnet News is the source for exclusive information and commentary about the events, trends, and people shaping the art market. Its success and popularity in the industry has helped strengthen the artnet brand. The editorial focus on original reporting led to increased pageviews and made artnet News a sought-after advertising platform, not only for luxury brands but for art-related businesses as well, including auction houses, galleries, and insurers.

Journalistic highlights in 2018 include: an exclusive interview with an influential art dealer which sparked an industry-wide debate about the sustainability of the business model of art fairs; the dysfunction at the Museum of Contemporary Art (MOCA) in Los Angeles behind the dismissal of a star curator; and a critical assessment of the Obama portraits in the National Gallery which became one of the most read reviews in the history of artnet.

artnet Auctions

artnet Auctions revenue remained stable after the strong growth from the previous year. In 2018, fee-based revenue increased by 1% to 4,075k USD, as compared to 2017 (4,040k USD). artnet Auctions shifted its strategic focus to higher-quality offerings with attractive pricing to raise the average lot price, the sell-through rate, and customer satisfaction—even if that meant consignments offered had to be turned down. While revenue decreased in the first nine months of the year due to lower transaction volumes, the result in the final quarter delivered on the promise of this strategy.

In the fourth quarter, revenue increased by 43% to 1,249k USD, as compared to the same quarter in 2017. While the number of lots sold in 2018 decreased slightly by 2% from 1,373 to 1,344, due to the quality of works offered, the average price of lots sold increased by 17% to 14,100 USD (2017: 12,029 USD). Since the inception of artnet Auctions in 2008, this was the highest quarterly revenue achieved.

This quality initiative led to auction records for particular blue-chip artists, only improving artnet's reputation as the leading provider of online-only auctions. In January, the 1984 painting *Solid Formation* by the influential graffiti artist Dondi White kicked off the record streak when it sold for 240k USD as part of the popular sale *Vandals: The Pioneers of Graffiti*—the highest price ever achieved at auction for his work.

In April, Sally Mann's *Candy Cigarette* sold for 132k USD, which set a world auction record for a print in this size. In a *Contemporary Editions* sale, Auctions achieved new records for works by Robert Longo, David Hockney, Vija Celmins, Alex Katz, and Chuck Close. The *Urban Art* sale saw three records for prints by the street artist KAWS. A painting by Neo-Expressionist artist Eric Fischl, *The Visit 1 (Originally the Oracle)*, sold for 525k USD. This was the second-highest price ever achieved at artnet Auctions after Andy Warhol's *Flowers* sold for 1.3 million in 2011. Works by the street artist Banksy topped 1 million USD in sales, almost doubling the sales from last year.

The top-performing artist of 2018 was by the late Canadian-American street art pioneer Richard Hambleton whose paintings totaled 1.4 million USD in sales. After the artist died in October 2017, artnet Auctions quickly saw the rising demand for his artworks. Specialists leveraged artnet's reputation to source many of his pieces and brought them to market in a short period of time. The Hambleton sales, in particular, exemplify the strength of the online auction business model as a means to trade high-quality art in an economical, fast, and flexible manner, providing additional artworks to the market and liberating sellers and buyers from the traditional auction seasons in the spring or fall.

Changes in Costs and Results

Gross profit in 2018 increased slightly by 4% or 504k USD to 13,262k USD, as compared to the previous year (12,758k USD), due to an increase in revenue and cost of sales of 4%. The increase in the cost of sales resulted primarily from investing in our network, such as the maintenance, configuration, and operation of computer or communication systems.

Sales and marketing expenses increased by 16% or 775k USD to 5,702k USD (4,927k USD) in 2018, mainly due to investments in personnel, such as hiring new leadership for the Marketing Team.

Expenses for product development decreased by 1,030k or 34% to 2,008 USD, as compared to 2017 (3,038k USD). In 2018, artnet focused on project FALCON, and as a result, more development costs were capitalized.

Development costs were capitalized for the fundamental upgrade of the Company's technology infrastructure and internal software tools that allow artnet teams to build, test, and deploy new applications on multiple platforms. By focusing on project FALCON, investments in other product developments were postponed or reduced at short notice.

In 2018, non-capitalized product development costs totaled 2,008k USD (2017: 3,038k USD). Out of the total development costs on the amount of 1,595k USD (1,352k EUR), which were assigned to the aforementioned capitalized project, 1,363k USD (1,155k EUR) were capitalized.

General and administrative expenses remained stable at 4,647k USD, as compared to 2017 (4,386k USD). These costs primarily include the salaries of administrative staff and management compensation (1,905k USD), rent and ancillary rental costs (1,258k 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. For further reference, see the detailed presentation in section 23 of the notes to the consolidated financial statements.

At the start of 2018, sales expenses were allocated to the segments they accumulated in for the first time. This adjustment was also made retroactively for the 2017 financial year. The following comparison is based on the adjusted segment results.

The artnet Price Database and Galleries segments both generated strong positive CM II in 2018. For the artnet Price Database, the CM II increased by 10% to 4,932k USD, as a result from an increase in revenue and a decrease in personnel. For artnet Galleries, the CM II increased by 17% to 3,659k USD, which is mainly due to a shift to higher-priced membership subscriptions and a decrease in sales expenses.

The CM II for the artnet News segment decreased by 191k USD to -508k USD, due to an increase in sales expenses. More of these costs were assigned to News as part of the overall reallocation. Marketing expenses increased as well.

artnet Auctions generated a higher CM II of 36k USD, as compared to the previous year (2017: 199k USD) and became profitable for the first time since the platform launched. Auctions reported the highest yearly revenue since 2008.

Group Profit or Loss

Operating expenses remained about the same with a change of less than 1% to 12,357k USD (2017: 12,351k USD), primarily due to additional staff in sales and marketing, which was offset by a decrease in product development costs as fewer of these expenses were capitalized, as compared to 2017.

As a result, operating income increased by 122% to 905k USD, as compared to the previous year (2017: 407k USD).

Due to the US tax reform from December 2017, the minimum tax paid in previous years can be claimed, resulting in income from current taxes amounting to 233k USD. As in the previous year, income from the capitalization of deferred tax assets of 216k USD (2017: 367k USD) were additionally recognized in anticipation of higher US-tax profits.

Net profit in 2018 increased by 57% to 1.2 million USD, as compared to the previous year (2017: 784k USD).

The Group's result was also positively influenced by foreign currency gains of 104k USD (2017: -295k 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, 2018. Throughout 2018, the average exchange rate was 0.848 USD/EUR, as compared to 0.887 USD/EUR during the 2017 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, 2018, the rate was 0.872 USD/EUR, as compared to 0.833 USD/EUR on December 31, 2017.

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 2018 and 2017, the Group generated approximately 16% of its revenue in euros and approximately 8% in British pounds, respectively.

Due to the growth of the products and the average exchange price in 2018, the profitability of the Group, in euros, is affected significantly by foreign currency exchange effects. Revenue growth in USD did not keep pace with the devaluation of the US dollar, and as a result, led to a decline in revenue of 1% to 18,322k EUR (2017: 18,426 k EUR). Gross profit of sales, when reported in euros, decreased by 1% or 78k EUR to 11,241k EUR. When stated in US dollars, it rose by 4% or 503k USD to 13,262k USD.

The currency trend in US dollars only has a moderate impact on general administrative expenses on a euro basis since a significant portion of the expenses (for example, all holding costs of artnet AG) are already settled in euros. Thus, the Group generated a positive operating profit of 767k EUR, as compared to an operating profit of 361k EUR from the previous year, due to the decrease in operating expenses. In 2018, net profit in euros amounted to 1,044k EUR (2017: 695k EUR).

Financial Position

In 2018, operating cash flow increased by 3% to 1,254k USD, as compared to 1,212k USD from the previous year. The increase is mainly due to higher net profits. Cash outflow from investing activities amounted to 1,580k USD in 2018, a significant increase as compared to the previous year (2017: 1,022k USD). This increase notably accelerated investments in intangible assets relating to the upgrade of the technology infrastructure and internal tools.

The 2018 cash outflow from financing activities decreased to 26k USD, as compared to -54k USD in 2017, as new leasing agreements replaced previous ones and were finalized at the end of the 2018 financial year.

Cash and cash equivalents decreased by approximately 28% or 371k USD to 957k USD as of December 31, 2018 (December 31, 2017: 1,327k USD), mainly due to increased personnel costs.

In euros, the changes in cash flow from operating, investing, and financing activities vary from US dollars. Because of the increase in the value of both the euro and British pound against the US dollar from December 31, 2017 to December 31, 2018, cash and cash equivalents decreased by 18k USD. In euros, the positive currency effect amounts to 24k EUR since the holdings in US dollars depreciated. Therefore, the liquidity portfolio of the Group decreased by 25% to 835k EUR as of December 31, 2018 (December 31, 2017: 1,106k 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, 2018, the liquidity per share totaled 0.17 USD (0.15 EUR) based on an average of 5,552,986 outstanding shares, as compared to 0.24 USD (0.20 EUR) on December 31, 2017.

Financial Status

Consolidated total assets amounted to 8,700k USD on December 31, 2018, as compared to 6,902k USD on December 31, 2017, representing an increase of 26%. This is the result from an increase in intangible assets for the capitalization of project FALCON, as well as the capitalization on intangible assets by 216k USD to 1,418k USD, and the recognition of a minimum tax refund requirement of 233k USD.

Accounts receivable rose significantly from 725k USD to 2,183k USD following higher receivables and assets from advertising, as well as the new presentation provisions of IFRS 15 which no longer permit the offsetting of receivables with not yet fulfilled performance obligations (contract liabilities).

The Group's non-current assets are primarily held in US dollars. Fixed assets, which are comprised of intangible and tangible assets, increased by 1,028k USD to 2,979k USD. This increase is mainly due to the capitalization of intangible assets in the amount of 1,363k USD relating to the upgrade of our technology infrastructure with project FALCON.

Total current liabilities and provisions increased by 443k USD to 5,057k USD (2017: 4,614k USD). This increase is mainly attributable to an increase in accounts payable.

Following an increase in accounts receivable, deferred revenue increased from 1,826k USD as of December 31, 2017 to 2,021k USD as of December 31, 2018.

Long-term liabilities in the reporting year increased by 7% to 272k USD as of December 31, 2018. This increase was mainly due to long-term computer equipment leasing obligation.

The Group's consolidated equity increased to 3,371k USD as of December 31, 2018 (December 31, 2017: 2,035k USD).

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

Based on the 2018 financial results, the Management Board feels vindicated in its strategic decisions. In 2018, the two largest segments in terms of revenue, Price Database and Galleries, grew by 3% and 4%, respectively, as compared to the previous year. In addition to the continued increase in Price Database subscriptions and revenue, the positive development of Galleries revenue is notable given previously weaker years for this segment.

Since 2014, the success of artnet News has attracted advertising from luxury brands. As a result, advertising revenue has risen sharply in recent years and now accounts for approximately one fifth of total sales. In 2018, advertising revenue increased by 9%, with the News segment contributing a strong growth of 14%. Thanks to the popularity of artnet News and improved page content on artnet sites, the total number of visitors to artnet increased by 18% in the past year alone.

artnet Auctions' strong growth was realized in 2017 and stabilized well into 2018, with a slight increase. Even though Auctions' revenue did not meet Management's ambitious expectations, important improvements were made to the sell-through rate and the average price of lots sold. The first year of profitability for Auctions is a particularly positive development.

The liquidity position is in line with expectations and the equity base was further strengthened. artnet has largely complied with its own forecasts for the 2018 financial year and also completed an important developmental step through project FALCON.

Non-Financial Performance Indicators

Employees

As of December 31, 2018, the Group employed 131 full-time staff members (December 31, 2017: 117). Additionally, three part-time employees worked for the Group in 2018, as compared to five in 2017. In sales and other departments, the Group employed three freelancers, as compared to six in the previous year.

Personnel expenses (excluding social insurance contributions) totaled to 13,395k USD, as compared to 13,504k USD in the previous year. While personnel expenses are a part of costs of sales and sales and marketing increased, personnel expenses decreased in general for administrative costs and product development.

Other Non-Financial Performance Indicators

The quality of our services and satisfaction of clients and visitors to the site are of the utmost importance to our business. Feedback for contract cancelations of Gallery Network memberships, Price Database subscriptions, and Auction House Partnerships are evaluated for quality assurance purposes through customer surveys and direct input from clients. This process allows us to respond to requests, suggestions, and cancelations in a timely manner, which helps reduce risks while continuously improving each product and service.

For the artnet Galleries segment, monitoring and controlling indicators include the number of inquiries sent, as well as pageviews for each member site—these indicators are not published for competitive reasons. Membership cancelations and new memberships sold are monitored and recorded on a monthly basis. In 2018, cancelations decreased by approximately 4%, representing 11 fewer cancelations as compared to 2017. As the number of new contracts fell by 24% to 149 (2017: 195), the overall number of gallery memberships decreased by 98 to 1,117 at the end of 2018. Overall, the net loss of 98 galleries is larger than the 62 lost in 2017 and 13 in 2016, and more than in 2015, when the net loss amounted to 90 galleries.

For the artnet Price Database segment, most indicators measured showed positive results as compared to 2017. The number of subscribers, searches, and lots added are monitored on a monthly basis. 2018 was a particularly successful year for the Price Database Team as the amount of subscribers increased by 2% on average per month, while the number of searches decreased by 1%, as compared to 2017. The number of auction results added to the database increased by 6%, partly from improved and efficient editing. On average, auctions were added to the Price Database one day earlier as compared to the previous year, while the auction result after the sale remained mostly unchanged in 2018. In 2018, the Price Database exceeded 12.5 million auction results.

Following the strategy to further increase the quality of lots offered on artnet Auctions, the average transaction value for 2018 increased by 17% to 14.1k USD over 2017. Compared to the previous year, transactions above 75k USD increased by 7%, confirming the market's growing confidence about buying and selling high-value artworks online. The sell-through rate by volume increased by 10% and the sell-through rate by value rose by 12%—this growth reinstates the quality of lots offered. In 2018, less artworks were offered and the number of lots sold decreased slightly by 2% from 1,373 to 1,344.

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, but is not published for competitive reasons.

As an online-only business, site traffic is of the greatest importance to artnet and is closely monitored, recorded, and evaluated daily. Product improvements and daily content updates to the site have attracted 18% more visitors to artnet, as compared to the previous year. The number of visitors increased from 2.6 million average per month in 2017 to 3 million in 2018. This positive trend is evident between 2016 and 2017, when the number of visitors increased from 2.2 million to 2.6 million, also representing an increase of 18.0%.

3. Disclosure of Takeover Provisions

Composition of Capital Stock

artnet AG's fully paid-in capital stock, as of December 31, 2018, totaled an unchanged 5,631,067 EUR, and comprises of 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, 2018, 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. Kyra Heiss, Munich, at 12.25%, as of December 31, 2018.

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.

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	2017	2018		
	Granted	Granted	(Min)	(Max)
Fixed Basic Remuneration	321,609	317,863	317,863	317,863
Remuneration in Kind	12,330	10,824	10,824	10,824
Total	**333,939**	**328,687**	**328,687**	**328,687**
Short-Term Remuneration	33,270	31,786	–	317,863
Benefits	–	–	–	–
Total Remuneration	**367,209**	**360,473**	**328,687**	**646,550**

Paid, CEO	Jacob Pabst	
EUR	2017	2018
Fixed Basic Remuneration	321,609	317,863
Remuneration in Kind	12,330	10,824
Total	**333,939**	**328,687**
Short-Term Remuneration	–	33,270–
Benefits	–	–
Total Remuneration	**333,939**	**361,957**

The remuneration is paid in US dollars and is effected by exchange rate fluctuations.

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. The agreements were extended for two years on March 18, 2019.

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 2018 fiscal year, the fixed cash remuneration of the Management Board member, Jacob Pabst, totaled 318k EUR (375k 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 2018, the Supervisory Board has set a variable remuneration component of 32k 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 50k EUR, the deputy chairman receives 37,500 EUR, and the third member of the Supervisory Board receives 25k 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 five 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
- Compliance, which monitors internal and external legal risks, as well as legislation changes
- 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 chief financial officer 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. 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. 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. The recovery of the art market, which begun in 2017, continued well into 2018. A possible increase of interest rates in the United States for 2019 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, increased protectionism, and geopolitical tensions.

Financial market volatility has increased in 2018, and asset prices have depreciated in the fourth quarter, potentially suggesting continuing market turbulence.

Operating Risks

Technology 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 reputation, revenue, and costs. Any such interruption increases the work required by the Technology Department, which leads to delays in production of new products and services.

Project FALCON, an upgrade of the Group's technology infrastructure, will increase the usage of third-party systems, allowing for higher flexibility which reduces in-house development risks.

The Group's own systems have been designed so that periods of interruption in the event of a power outage or catastrophe are low but they remain susceptible to damage or disruption from flooding, fire, and or interruptions to services due to terrorist attacks, computer viruses, and other unforeseen events. To ensure protection, the Group's web servers are located in an extremely secure off-site facility and cloud-based data services are increasingly used, further reducing risk of physical storage.

Product Development

The Group's future success partly depends on the time in which it can adjust to technological changes and new industry standards. Therefore, the Group observes and analyses market trends. Based on these analyses, the Management Board decided to improve the functionality and reliability of the site and to launch new products that benefit both existing and potential clients. This is supposed to curtail risks of falling behind market standards. The most important step taken for this development is project FALCON, which will allow for both, faster development and adjustment to market trends.

However, there is always risk that product innovation and further product development might not be immediately accepted by users, and that the associated goals might not be met as a result. 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 several startups in the market, many of which are directly competing with one or more of our product segments.

Traffic to the Website

The number of visitors to artnet sites are of key importance to the Group, and a downturn in these numbers could lead to reduced revenue for all products. The Group monitors traffic on a daily basis in order to ensure that traffic meets expectations. To further increase visibility to the site, the Group invests in search engine optimization (SEO), advertising, and marketing. 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 SEO, advertising, and marketing.

Legal Risks

Trademark Laws

artnet protects itself through the trademark of the artnet name in the Group's main market areas of operation, in particular, the United States 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. The Group protects and defends itself against copyright and other legal claims, but negative outcomes for the Group cannot be fully eliminated.

Copyright Laws

The Group uses a number of photographs of decorative art objects in the Price Database. Because of its global outreach and client base, the Group is exposed to varying jurisdictions concerning copyright protection. For this reason, artnet agreed on a license contract with the Copyright Collective Bild-Kunst in Germany, which has several sister organizations internationally, and the Artist Rights Society in the United States. Given the vast number of images in the Price Database, these contracts do not cover all rights for all images available. 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 Group 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 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 and is committed to subjecting all personal data received from European Union (EU) member countries to align with the General Data Protection Regulations (GDPR) took 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 usually does not engage in exchange rate hedging. This is especially true as the Group accepts payments from customers in euros and British pounds, and pays their suppliers in Europe in their respective currencies. The Group considers its exchange rate risk limited with respect to its international business operations.

Due to the intragroup loan in which the parent company, artnet AG based in Germany, 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 Management Board desists from a hedge of this foreign currency risk due to reasons of efficiency.

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

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, 2018, cash and cash equivalents in US dollars decreased by 28%, as compared to the previous year. In euros, cash and cash equivalents decreased by 25%.

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 has become final at the end of March 2018. The formed provision covers the maximum risk of this trial, including interest. The Group continues to evaluate 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 2019.

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 temporary impact on the Company's day-to-day operations. However, this can cause little disruption by having well-trained and highly skilled middle management.

The above list cannot outline all risks to which the Group might potentially be exposed to. 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 arise from internal or external environmental changes.

Art as an Asset Class

Globally, a growing number of high-net-worth individuals is increasing the Group's client base, as these individuals consider art as a luxury, as well as an asset class or collectable to invest in. If this trend continues, the art market and the Company's potential clients could expand even further.

Transaction Habits

E-commerce, including luxury products, 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 fine art. With a clear focus on quality, artnet Auctions continues to achieve high prices indicating ongoing business opportunities in this dynamic segment. The online-only model also liberates buyers and sellers from the confinement of traditional auction seasons, giving artnet the opportunity to bring artworks to the market in a short period of time, thereby gaining a competitive edge.

Market Opportunities

The international art market has traditionally been linked to the economies of industrialized countries. Stronger than expected economic growth in the developed world, in particular the US, artnet's core market, may positively affect the Company's business.

China's Market

artnet recognizes opportunities in China. The Company's growing presence on WeChat, China's leading social media platform, already led to new registrations for artnet Auctions which could expand even further. With a growing Chinese middle class and an increasing number of high-net-worth individuals, the Chinese art market and interest in European and American art is bound for expansion. artnet views this trend as an opportunity, and is strategizing on how to capitalize on changes to the Chinese market.

Synergies Within the Company

The Company's different segments also offer new opportunities for synergies within the Group. Journalists from artnet News have written profiles on gallery members and have collaborated with Price Database art historians on a comprehensive study of current trends in the art market. There continues to be more opportunities to leverage and highlight artnet's broad product portfolio and expertise to create new products.

Brand Opportunities

The overarching focus on quality in all segments is strengthening artnet's brand. This could lead to increased revenue from subscriptions, memberships, auction fees, and advertising. A strong brand also makes the Company more competitive in the search for and retaining of talent.

artnet is at the forefront of the online art market. Over the course of nearly three decades, the Company has established a reputation for quality and reliability. As a result, various brands and institutions within the industry, and outside, are attracted in partnering with artnet which increases brand awareness, as well as potentially growing the client base.

Advertising on artnet News

artnet News has become the leading online platform for news covering the art world at large. The platform's quality journalism and original reporting has increased pageviews and made News a sought-after advertising platform for luxury brands and art-related businesses. Its popularity and exclusive stories has led to increased site traffic and potential advertising revenue.

FALCON

artnet is improving its site and technology infrastructure with project FALCON. Upon its completion, artnet will be more agile and more efficient, offering opportunities to develop and bring new products to market faster while reducing costs. This development allows the Company to leverage market trends and increase revenue at lower costs.

The Company's success depends, to a large extent, on our ability to provide clients with innovative solutions and improved products and services. Thus, the Company continues to increase the effectiveness of its products and to further develop the 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 2017, no significant changes have been added to risks. artnet has prevailed in a sometimes challenging climate amid an intensely competitive market. 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. More opportunities are arising from the accessibility of art, growing number of high-net-worth individuals, and e-commerce habits. Project FALCON will help speed up development time, creating more opportunities for faster growth and reduced costs.

7. Subsequent Report

There were no material events from December 31, 2018 to March 18, 2019, 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.

In 2019, artnet is poised to expand its leading position in a competitive market, taking advantage of the robust performance of the Price Database and Galleries, as well as the growing momentum of Auctions and News. artnet's competitive advantage regarding data, clients, and traffic, position the Group for further growth.

artnet is improving its IT infrastructure with project FALCON. The project is a series of initiatives aimed at reducing maintenance costs for existing products, as well as improving the performance of product developers. Visitors to the site will see the first changes and improvements in 2019.

FALCON will make artnet faster, more flexible, and more efficient. Therefore, Management expects growth in all business areas at lower investment costs.

artnet Auctions remained stable after its healthy growth from the previous year, 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 way to buy and sell fine art. Auctions will play an even more critical role in the art world as higher-priced artworks become more prevalent. Against this backdrop, Auctions has shifted its strategic focus to high quality offerings with attractive pricing to raise the average lot price, the sell-through rate, and customer satisfaction—even if consignments have to be turned down to ensure quality. We will continue to grow the team and maintain this strategy to increase the average lot prices. We will also focus more on increasing online-only sales and less on the more labor-intensive private sales. After Auctions' record revenue in the fourth quarter, and many auction records throughout the year, Management projects significant revenue growth for the product in 2019 and beyond.

artnet News has become the leading online platform for news covering the art world at large. The editorial strategy to focus on quality and original content resulted in increased site traffic and advertising revenue. The success of News and its strong brand recognition has had positive effects on all artnet products. Management expects this positive trend to continue and projects strong revenue growth in 2019.

The artnet Price Database increased its revenue in 2018 since it achieved the highest subscriber growth since 2015. The redesign and improved positioning of the product page led to higher conversion rates of visitors to the site and to continued growth of retail subscriptions. The institutional business grew as a result of stronger outreach efforts for new sales and subscription renewals. Considering a continuation of this trend, Management expects the artnet Price Database segment to moderately increase revenue in 2019.

The artnet Galleries segment achieved a turnaround in 2018 after the launch of the Gallery Portal in the previous year. The well-received content management system gives Gallery Network members the ability to independently manage and showcase their inventory. Building on the success of the Gallery Portal, artnet in 2018 redesigned the gallery profile pages to ease the use of the site further. The Galleries segment profited from a considerable shift towards top-tier and higher-priced membership plans and increased demand for Auction House Memberships. artnet will expand the Sales Team and outreach to potential clients. Despite the ongoing economic struggle of smaller and mid-size galleries, Management expects the number of memberships to stabilize, and projects a slight increase in revenue for 2019.

Based on the individual expectations for each segment, Management predicts total revenue to increase within a range of 23 million–24 million USD (20.2 million–20.9 million EUR at an estimated exchange rate of 1.15 EUR/USD) in 2019. For income from operations, Management expects to remain between 1 million–1.5 million USD (0.9 million–1.3 million EUR), due to investments in personnel, sales and marketing, product development, and network maintenance.

Management assumes that the considerable investments in its entirety will not lead to significant increases in earnings for 2019, but will enable stronger growth in the medium term. Excluding the above mentioned, unexpected cash outflow from the French ruling and cash and cash equivalents are expected to increase slightly as compared to December 31, 2018.

Berlin, March 18, 2019

Jacob Pabst
CEO, artnet AG

Consolidated Financial Statements as of December 31, 2018

artnet AG Consolidated Balance Sheet

As of December 31, 2018

	Notes No.	12/31/2018 USD	12/31/2017 USD	12/31/2018 EUR	12/31/2017 EUR
Assets					
Current Assets					
Cash and Cash Equivalents	3	956,669	1,327,514	835,076	1,106,350
Trade Receivables	4	2,182,844	1,458,193	1,905,405	1,215,258
Other Current Assets	5	634,251	525,410	553,638	437,877
Total Current Assets		**3,773,764**	**3,311,117**	**3,294,119**	**2,759,485**
Non-Current Assets					
Property, Plant, and Equipment	6	427,300	383,530	372,990	319,634
Intangible Assets	7	2,552,196	1,567,803	2,227,812	1,306,607
Other Non-Current Assets	5	529,281	438,328	462,010	365,303
Deferred Tax Assets	8	1,417,544	1,201,422	1,237,374	1,001,265
Total Non-Current Assets		**4,926,321**	**3,591,083**	**4,300,186**	**2,992,809**
Total Assets		**8,700,085**	**6,902,200**	**7,594,305**	**5,752,294**
Equity and Liabilities					
Current Liabilities					
Accounts Payable	9	481,654	426,347	420,436	355,318
Accrued Expenses and Other Liabilities	10	1,425,334	1,268,181	1,244,174	1,056,902
Provisions	11	1,082,673	1,073,914	945,065	895,000
Short-Term Liabilities from Finance Leases	12	46,352	19,731	40,461	16,444
Contract Liabilities	14	2,021,175	1,826,101	1,764,284	1,521,873
Total Current Liabilities		**5,057,188**	**4,614,274**	**4,414,420**	**3,845,537**
Long-Term Liabilities					
Office Rent Amortization	13	192,772	238,562	168,271	198,818
Long-Term Liabilities from Finance Leases	12	79,115	14,761	69,059	12,302
Total Long-Term Liabilities		**271,887**	**253,323**	**237,330**	**211,120**
Total Liabilities		**5,329,075**	**4,867,597**	**4,651,750**	**4,056,657**
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		(56,569,321)	(57,353,077)	(54,948,860)	(55,644,205)
Current Net Profit		1,231,980	783,756	1,044,268	695,345
Foreign Currency Translation	15	612,108	507,681	464,782	262,132
Total Shareholders' Equity		**3,371,010**	**2,034,603**	**2,942,555**	**1,695,637**
Total Liabilities and Shareholders' Equity		**8,700,085**	**6,902,200**	**7,594,305**	**5,752,294**

artnet AG Consolidated Income Statement
For the Fiscal Year from January 1 to December 31, 2018

	Notes No.	2018 USD	2017 USD	2018 EUR	2017 EUR
Revenue					
Gallery Network		5,376,475	5,162,075	4,557,285	4,579,775
Price Database		7,664,201	7,444,774	6,496,441	6,604,978
Advertising		4,499,255	4,121,895	3,813,723	3,656,931
artnet Auctions		4,075,399	4,040,074	3,454,448	3,584,340
Total Revenue	24	**21,615,330**	**20,768,818**	**18,321,897**	**18,426,024**
Cost of Sales		8,353,714	8,010,425	7,080,896	7,106,822
Gross Profit		**13,261,616**	**12,758,393**	**11,241,001**	**11,319,202**
Operating Expenses					
Sales and Marketing		5,702,188	4,926,971	4,833,371	4,371,192
General and Administrative		4,646,858	4,385,740	3,938,836	3,891,014
Product Development		2,008,003	3,038,350	1,702,052	2,695,614
Total Operating Expenses		**12,357,049**	**12,351,061**	**10,474,259**	**10,957,820**
Operating Income		**904,567**	**407,332**	**766,742**	**361,382**
Interest Expenses	22	1,406	36,363	1,192	32,261
Interest Income	22	–	(700)	–	(621)
Other Income/(Expenses)	22	(84,285)	102,182	(71,443)	90,656
Earnings Before Taxes		**818,876**	**472,451**	**694,107**	**419,156**
Income Taxes	8	196,982	(55,911)	166,969	(49,604)
Deferred Tax Benefit/(Expense)	8	216,122	367,216	183,192	325,793
Net Profit		**1,231,980**	**783,756**	**1,044,268**	**695,345**
Other Comprehensive Income					
OCI Recycled: Differences from Foreign Currency Translation		104,427	(295,268)	202,650	(468,980)
Total Comprehensive Income		**1,336,407**	**488,488**	**1,246,918**	**226,365**
Result per Share					
Basic	21	0.22	0.14	0.19	0.13
Diluted	21	0.22	0.14	0.19	0.12

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

For the Fiscal Year from January 1 to December 31, 2018

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
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**
Net Income	–	–	–	–	1,231,980	104,427	1,336,407
Balance as of 12/31/2018	**5,631,067**	**5,941,512**	**(269,241)**	**52,423,972**	**(55,337,341)**	**612,108**	**3,371,010**

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

For the Fiscal Year from January 1 to December 31, 2018

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
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**
Net Income	–	–	–	–	1,044,268	202,650	1,246,918
Balance as of 12/31/2018	**5,631,067**	**5,631,067**	**(264,425)**	**51,015,723**	**(53,904,592)**	**464,782**	**2,942,555**

artnet AG Consolidated Statement of Cash Flows

For the Fiscal Year/Period from January 1 to December 31, 2018

	Notes No.	2018 USD	2017 USD	2018 EUR	2017 EUR
Cash Flow from Operating Activities					
Net Profit		**1,231,980**	**783,756**	**1,044,268**	**695,345**
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities					
Depreciation and Amortization	6,7,22	582,147	461,849	493,448	409,751
Impairments/Write-Offs for Receivables	4	405,301	296,870	343,547	263,382
Changes in Deferred Tax Assets	8	(216,122)	(316,990)	(183,192)	(281,232)
Other Non-Cash Transactions		218,270	(212,006)	228,469	(256,020)
Changes in Operating Assets and Liabilities					
Trade Receivables	4	(1,129,952)	(105,406)	(957,785)	(93,516)
Other Current Assets	5	(108,841)	(120,668)	(92,257)	(107,056)
Security Deposits		(90,953)	(51,817)	(77,095)	(45,972)
Accounts Payable	9	55,307	59,216	46,881	52,536
Accrued Expenses and Tax Liabilities	10	111,363	529,679	94,395	469,930
Contract Liabilities	14	195,074	(112,080)	165,351	(99,437)
Total Adjustments		**21,594**	**428,647**	**61,762**	**312,366**
Cash Flow Provided by Operating Activities		**1,253,574**	**1,212,403**	**1,106,030**	**1,007,711**
Cash Flow from Investing Activities					
Purchase of Property and Equipment	6,12	(141,181)	(81,917)	(123,237)	(68,270)
Purchase and Development of Intangible Assets	7,12	(1,438,991)	(954,844)	(1,256,095)	(795,767)
Payment for Acquisition of Consolidated Companies		-	14,998	-	12,499
Cash Flow Used in Investing Activities		**(1,580,173)**	**(1,021,763)**	**(1,379,332)**	**(851,538)**
Cash Flow from Financing Activities					
Repayment of Finance Leases	12	(26,418)	(54,355)	(22,393)	(48,224)
Loans Redeemed	27	-	-	-	-
Cash Flow Used in Financing Activities		**(26,418)**	**(54,355)**	**(22,393)**	**(48,224)**
Effects of Exchange Rate Changes on Cash		**(17,828)**	**80,949**	**24,421**	**(56,699)**
Changes in Cash and Cash Equivalents		**(370,845)**	**217,234**	**(271,274)**	**51,250**
Cash and Cash Equivalents—Start of Year	3	**1,327,514**	**1,110,281**	**1,106,350**	**1,055,100**
Cash and Cash Equivalents—End of Year	3	**956,669**	**1,327,514**	**835,076**	**1,106,350**
Supplemental Disclosures of Cash Flow					
Income Tax Receipts/(Payments)	8	(8,995)	(57,969)	(7,624)	(51,188)
Interest Payments	22	(1,406)	(36,363)	(1,192)	(32,261)
Interest Receipts	22	–	(700)	–	(621)

Notes to the Consolidated Financial Statements 2018

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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. The company is entered in the Commercial Register of Charlottenburg District Court under HRB 980060 B.

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, 2018, 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 18, 2019.

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, 2018. The principal accounting policies adopted are set out below.

The consolidated financial statements as of December 31, 2018 have been prepared under the assumption that the Company will continue operations, as the Company assumes that the due payment obligations in 2019 can be fulfilled. Due to planned measures against the enforcement of a ruling in France regarding copyright infringement, the Group assumes no full cash outflow for the claimed damage. The potentially significant liquidity risk due to the copyright process ruling is explained in detail in the liquidity risk section of the Group Management Report.

Basis of Consolidation and Consolidated Companies

The consolidated financial statements include the legal parent company, artnet AG, and its wholly owned subsidiary, and Artnet Corp., as well as its subsidiaries. A company determines whether it is a parent by assessing whether it controls one or more investees. Control over a company that leads to its inclusion in the consolidated financial statements is deemed to exist if artnet 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 decision-making powers over a company if it has rights that give it the current opportunity, either directly or through third parties, to control the relevant activities of the investee. The relevant activities are those which, depending on the type and purpose of the company, have a material influence on its returns. 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.

The contribution of the shares of Artnet Corp. made on February 23, 1999 was treated by artnet AG in the consolidated financial statements in accordance with IFRS 3.B1 et seq. as a reverse acquisition by Artnet Corp. Therefore, the initial consolidation was carried out in such a way that artnet AG—the legal acquirer of the subsidiary Artnet Corp.—was consolidated as this subsidiary as Artnet Corp. was to be regarded as the economic acquirer.

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.

When preparing the consolidated financial statements, intragroup receivables, liabilities, and results were eliminated within the consolidation of debt, expense, and income items. The income and expenses resulting from intragroup transfers of assets are also eliminated. Accounting policies at subsidiaries are based on uniform group-wide standards.

Reporting Period

The consolidated financial statements were prepared for the reporting period from January 1, 2018 through December 31, 2018. The financial year for all Group companies coincides with the calendar year.

Accounting Principles of General Importance for artnet

The explanations relevant to the accounting principles are given in the corresponding notes to the respective items in the financial statements. In the following section, only those accounting principles are presented that are of general importance for several balance sheet items.

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 less costs of disposal. In the event that the asset does not generate cash flow 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 basically measured by discounting the asset's estimated future cash flow. Alternatively, the value in use is also determined on the basis of expected lower cash outflow, which in turn are discounted.

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 2018 and 2017, no impairment or attribution 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	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Current Rate Year End	0.8729	0.8334	0.7837	0.7406
Average Rate for the Year	0.8476	0.8872	0.7502	0.7768

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		
New Standards or Interpretations	**Coming into Effect**	**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
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1/1/2018	3/28/2018
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	2/26/2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1/1/2018	11/3/2017
Annual Improvements to IFRS Standards 2014–2016 Cycle	1/1/2018	2/7/2018
Amendments to IAS 40: Transfer of Investment Property	1/1/2018	3/14/2018

IFRS 15 “Revenue from Contracts with Customers”

The standard IFRS 15 “Revenue from Contracts with Customers” reflects the recognition of revenue with the transfer of promised 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 artnet transfers control of a good or a service.

IFRS 15 also regulates the presentation of existing performance obligations and received considerations. Conceptually, revenue recognition is based on a five-step model. To apply for IFRS 15, a contract and performance obligation must be identified. Once the transaction price is determined, it is allocated to the performance obligation in the contract and revenue can be recognized.

IFRS 15 does not have a material impact on the consolidated financial statements of the Company. Revenue recognition follows IFRS 15 for all subscription businesses, except advertising and online auctions. However, the first-time application of IFRS 15 leads to a balance sheet extension, as no more receivables may be offset against unfulfilled performance obligations. Accordingly, account receivables and deferred revenues from contracts as of January 1, 2018, were each increased by 270k EUR. This adjustment had no effect on equity. In addition, the item “Deferred Revenue” was renamed in “Contract Liability” in order to comply with the requirements of IFRS 15.

As the Group applied the modified retrospective method when transitioning to IFRS 15, neither the comparative information for 2017 was adjusted nor were the new disclosure requirements and were generally not applied to comparative information.

IFRS 9 “Financial Instruments”

IFRS 9 "Financial Instruments" replaces IAS 39 and introduces a uniform approach to classifying and measuring financial assets and liabilities. IFRS 9 has no material impact on the consolidated financial statements.

Under IAS 39, financial assets were classified exclusively as "Loans/Receivable" and measured at amortized cost. This is also the case under IFRS 9 where the financial assets are attributed to the category “carried at amortized cost.” With regard to financial liabilities, there have been no changes, as the categorization requirements under IAS 39 have largely been duplicated in IFRS 9.

Since artnet's financial assets consist predominantly of current accounts receivables, mainly the simplified impairment model is applied. On the basis of various analyses, the Group has come to the conclusion that the previously applied method to calculate the allowance for doubtful accounts can also be continued in accordance with IFRS 9.

Not Yet Applied New or Revised Standards and Interpretations

Future Features and Changes in Accounting

New Standards or Interpretations	Issued	Date of EU Endorsement (Anticipated)
IFRS 16: Leases	1/1/2019	10/31/2017
IFRS 17: Insurance Contracts	1/1/2021	Open
IFRIC 23: Uncertainty Over Income Tax Treatments	1/1/2019	10/23/2018
Amendments of Standards		
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1/1/2019	3/22/2018
Amendment to IAS 28: Long-term Interests in Associates and Joint Ventures	1/1/2019	Q1 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1/1/2019	Q1 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1/1/2019	Q1 2019
Amendment to IFRS 3: Definition of a Business	1/1/2020	2019
Amendments to IAS 1 and IAS 8: Definition of Material	1/1/2020	2019
Amendments to References to Conceptual Framework in IFRS Standards	1/1/2020	2019

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

IFRS 16 "Lease"

The standard IFRS 16 "Lease" is effective for accounting periods beginning on or after January 1, 2019. The standard is generally to be applied retrospectively, if possible, using transitional relief.

In the future, the lessee will inherently have to capitalize right of use assets given from every lease and to recognize a corresponding lease liability. The lease liability is recognized at the present value of the future lease payments.

As a result, in addition to the lease agreements currently being treated as finance leases, the lease for the office in New York is also to be recognized on the balance sheet. artnet has preliminarily determined an incremental borrowing rate of 3%. On the basis of this interest rate, the Group expects additional lease liabilities to total 3,714k EUR, of which 865k EUR will be recognized short term and 2,849k EUR will be recognized as long term.

artnet assesses the corresponding right of use in the amount of the lease liability. The liabilities from "accrual of rental income" in the amount of 193k USD are offset against equity with no effect on income.

Based on the balance sheet dated as of December 31, 2018, this would lead to a significant reduction of the equity ratio from 38.8% to 27.5%. 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, as these relate to the repayment portion of long-term finance lease obligations. Interest payments and minority materiality lease payments are to be capitalized in accordance with IFRS 16 to continue to be reported in operating cash flow.

artnet intends to apply IFRS 16 for the first time as of January 1, 2019, using the modified retrospective method. For this reason, any cumulative effect from the application of IFRS 16 is recognized as an adjustment to the opening balances of equity as of January 1, 2019. Comparative information is not restated. In addition, artnet intends to use the simplification rule regarding the retention of the definition of a lease during the transition. The Group will also make use of the relief for short-term leases (term of less than 12 months) and low-value assets, as well as recognize the lease payments as expenses over the term of the respective lease agreement. In addition, disclosure in the notes will be expanded to enable users to assess the amount, timing, and uncertainties associated with the leases.

Other New and Amended Standards

The other new and amended rules to be applied in the future are assumed to have no or only minor relevance to the accounting and reporting of the Group.

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 flow is reported separately by the origin and use 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 change in cash and cash equivalents in the Group results from the development of the individual cash flow after taking exchange rate related effects into account. 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, with possible discounts, 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. All accounts receivables are in conjunction with the service provided. The accounts receivable balance is presented net of allowance for doubtful accounts.

Accounts receivable consist of the following:

	12/31/2018 k EUR	12/31/2017 k EUR
Gross Accounts Receivable	1,765	1,365
Gross Contract Assets	595	184
Subtotal	2,360	1,552
Less: Allowance for Value Adjustment Accounts Receivable	(455)	(337)
Receivables After Impairment	**1,905**	**1,215**

Allowance for value adjustment are recorded for accounts receivable, as well as contract assets. Accordingly, only this simplified approach for accounts receivable is presented below. Default in accordance with IFRS 9 occurs when accounts receivable is more than 30 days past due. No loss allowances were recognized for other financial assets, in particular for cash and cash equivalents.

The credit risk is managed at a portfolio level. artnet attempts to reduce the credit risk by requesting and receiving payments in conjunction of performing a service. In the case of major new customers, creditworthiness is first analyzed on an individual basis before business relationships are entered. In addition, the loss of receivables is to be minimized through continuous contact between the Client Service Department and the customer.

There is no concentration of credit risk with respect to accounts receivable, as the Group has a diversified customer base. The accounts receivable balance consists of various receivables from customers located globally. The carrying amount of accounts receivable is equal to their fair value.

Receivables by maturity and expect credit loss:

	Loss Rate	Nominal Value k EUR	Valuation Allowance k EUR	12/31/2018 k EUR	12/31/2017 k EUR
Overdue But Not Impaired Receivables					
Between 0 and 60 Days	0%	1,608	0	1,608	949
Carrying Amounts of Impaired Receivables					
Overdue Between 61 and 90 Days	10%	90	34	56	151
Overdue Between 91 and 180 Days	25%	243	44	200	115
Overdue More than 90 Days	90%	419	377	42	
Total Overdue and Impaired Receivables		752	455	298	266
Receivables After Impairment		**2,360**	**455**	**1,905**	**1,215**

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.

artnet uses a provision matrix to determine expected credit losses. The loss rates were derived from migration probabilities, for which historical data was used. The migration probabilities give the probabilities with which a receivable progresses through successive stages in the payment delay. On the basis of this analysis, there was no need to adjust the previous value adjustment matrix for reasons of materiality. Future-related data are taken into account, in particular, in the form of the general economic outlook in the countries from which most customers originate. On the other hand, additional value adjustments are made on receivables in the Auctions segment, which are derived from historical data.

The allowance for doubtful accounts is the Group's best estimate of the amount of expected 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:

	12/31/2018 k EUR	12/31/2017 k EUR
Balance at the Beginning of the Fiscal Year	337	325
Bad Debt Expenses for the Year	425	348
Write-Off of Bad Debts	(335)	(275)
Currency Exchange Differences	28	(61)
Balance at the End of the Fiscal Year	**455**	**337**

5. Other Assets

Other Current Assets

Other current assets consist mainly of designated restricted cash balances for defined contribution retirement plans and health plans in the amount of 189k EUR (2017: 174k EUR). For software maintenance and insurance deposits, prepayments have been made in the amount of 202k EUR (2017: 194k EUR). There are also claims on tax payments in Germany and the United Kingdom amounting to 19k EUR (2017: 31k EUR).

In addition, other current assets include income tax receivables of more than 4k EUR, as well as a claim for reimbursement of previous years' alternative minimum tax ("AMT"), amounting to 123k EUR. A separate presentation in the balance sheet was waived for materiality reasons.

Other Non-Current Assets

Other non-current assets include deposit claims in connection with credit card statements and rental agreements of 339k EUR (2017: 323k EUR). In addition, claims for reimbursement of the AMT in the amount of 123k EUR (2017: 42k EUR) is recognized, which can be claimed with the tax return for 2019. Therefore, a payment is expected in 2020. A separate presentation in the balance sheet was waived for materiality reasons.

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 2018 and 2017 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, 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**
Exchange Differences	13	22	17	52
Disposals	(10)	–	–	(10)
Additions	199	7	–	199
As of December 31, 2018	**512**	**499**	**376**	**1,387**
Depreciation				
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**
Exchange Differences	12	19	11	42
Disposals	(8)	–	–	(8)
Depreciation for the Period	59	65	36	160
As of December 31, 2017	**301**	**463**	**251**	**1,015**
Carrying Amount				
As of December 31, 2017	**72**	**92**	**155**	**320**
Includes: Finance Leases	27	67	–	94
As of December 31, 2018	**212**	**36**	**125**	**373**
Includes: Finance Leases	110	21	–	131

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 at 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.

Expenses incurred during the research, planning, and post-processing phases of website development and ongoing maintenance are expensed immediately. 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 criterion of marketability for website development costs is specified by capitalizing only expenses for the development of new products and for significant enhancements and improvements to the website that are expected to lead directly to future revenue. Capitalized software development costs generate future economic benefits also in the form of cost savings.

In 2018, 1, 240k EUR (2017: 729k EUR) of the total development was capitalized. The main development project includes the process of upgrading the technology infrastructure and internal tools. The process of upgrading our technology infrastructure will improve quality assurance and efficiency for the whole company. Initial results of this project, titled FALCON, are anticipated to be partially achieved in 2019.

The recoverable amount of the development costs is subjected to an impairment test at least once a year, provided that the asset has not been used yet or if there are any indications of impairment over the year. In regard with project FALCON, the first criteria was relevant, so the mandatory annual impairment test has been carried out.

The asset's value in use at an independent level is measured by discounting the asset's expected cost savings, following the excess profit method calculation. As the recoverable amount calculated is significantly higher than the book value, no impairment loss was recognized on intangible assets.

The amortization expenses for intangible assets are included in the cost of sales. Research costs in the amount of 1,702k EUR (2017: 2,696k EUR) were recorded as a development expense in the period in which they were granted.

Intangible assets in the 2018 and 2017 fiscal years developed as follows:

	Development Costs EUR	Software EUR	Total EUR
Acquisition Costs			
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**
Exchange Differences	154	8	162
Disposals	–	(57)	(57)
Additions	1,240	16	1,256
As of December 31, 2018	**4,645**	**200**	**4,845**
Amortization			
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**
Exchange Differences	105	8	113
Disposals	–	–	–
Amortization for the Period	317	10	327
As of December 31, 2018	**2,445**	**172**	**2,617**
Carrying Amount			
As of December 31, 2017	**1,228**	**78**	**1,307**
Includes: Finance Leases	–	2	2
As of December 31, 2018	**2,200**	**28**	**2,228**
Includes: Finance Leases	–	1	1

As of December 31, 2018, 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:

	2018 k EUR	2017 k EUR
Current Income Taxes		
Income Tax Payments in France and Great Britain	(2)	(2)
US Corporate Tax (Federal, State) and Income Tax Expenses of Other Consolidated Companies	(1)	(48)
Tax Returns from Previous Years	170	0
Total Current Income Taxes	167	(50)
Deferred Tax		
Change in Deferred Tax Assets Based on Loss Carryforwards	(238)	241
Temporary Differences	474	65
Exchange Rate Differences	(53)	20
Total Deferred Taxes	183	326
Total Income Taxes	**350**	**277**

Tax refunds from previous years relate to the right to reimbursement of the AMT paid in previous years. For further details, see section "5. Other Assets."

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, as long as they can be used in the future. 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 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 2018 balance sheet date, Artnet Corp. has a total of 15.3 million EUR (17.5 million USD) in federal carried-forward tax losses and 25.6 million EUR (29.3 million USD) in carried-forward state tax losses from the state of New York available to offset future profits.

As of December 31, 2018, the carry forward tax losses for Federal tax was 15.3 EUR (17.5 USD) and 25.6 EUR (29.3 USD) for the State of New York which are applicable towards future profits. In the 2018 fiscal year, the carried-forward tax losses were utilized by achieving a taxable profit in the amount 3.9 million USD and 1 million USD, respectively. For the actual carried-forward tax losses of Artnet Corp., deferred tax assets of 1,237k EUR (2017: 1.001k EUR) were recognized in the consolidated balance sheet after deduction of deferred tax liabilities. The increase in deferred tax assets by 236k EUR is mainly due to the stabilization of tax results in recent years and an improved outlook for future taxable income. In addition, the tax accounting was adjusted in 2017 in order to use the existing loss carryforwards before their expiration. This accounting change has led to new deductible temporary differences.

Following the adjustment of the apportionment to measure deferred taxes, the tax rate has been reduced from 32% to 24.2%, which is the average corporate tax rate for Artnet Corp. 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 2020 in the amount of 12 million EUR (13.7 million USD), and in 2021 in the amount of 2.2 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 36.9 million EUR (2017: 36.2 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 2018 k EUR	Deferred Tax Assets 2017 k EUR
Deferred Tax Assets	864	1,102
Fixed Assets	200	(135)
Accounts Receivable	173	34
Total	**1,237**	**1,001**

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 24% (2017: 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.

	2018 k EUR	2017 k EUR
Earnings Before Tax from Continued Operations	694	419
Expected Income Tax Expense/(Benefit)—Tax Rate 43%	(168)	180
Non-Deductible Expenses and Other Effects	(83)	132
Tax Returns from Previous Years	196	0
Recognition of Deferred Tax Assets on Loss Carryforwards Used in Previous Years	490	450
Effect of Tax Rate Adjustments in the US	(245)	(116)
Reduction in Current Tax Expense Due to the Use of Tax Loss Carryforwards in the US	332	571
Non-Recognition of Deferred Tax Assets on Temporary Differences and Tax Loss Carryforwards in Germany and the US	(145)	(316)
Income Tax Expense / Tax Income as Per Statement of Comprehensive Income	350	277

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

Accrued liabilities and other liabilities developed as follows in the financial years presented:

	12/31/2018 k EUR	12/31/2017 k EUR
Outstanding Invoices	546	359
Bonus Payments	400	462
401(k) Payments (Retirement Provisions in the US)	127	114
Taxes and Social Security	87	21
Remaining Vacation Days	19	28
Other	65	73
Total	**1,244**	**1,057**

11. Provisions

Provisions are recognized when the Group has a present obligation from a past event, 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 945k EUR (2017: 895k 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. As of March 2018, the ruling can no longer be appealed. 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 2019 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. 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:

12/31/2018	Total k EUR	< 1 year k EUR	> 1–3 years k EUR
Present Value of Minimum Lease Payments	109	40	69
Interest Portion	4	2	1
Minimum Lease Payments	**113**	**42**	**70**

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**

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 benefits from rent-free periods in the amount of 168k EUR (2017: 199k EUR) for the office premises rented in New York as of December 31, 2018. Deferrals in US dollars decreased as scheduled by 46k USD, while the amount in euros also decreased by 31k EUR due to currency exchange effects.

14. Contract Liabilities and Revenue Recognition

In accordance with IFRS 15 revenue is recognized when artnet transfers control of a good or a service.

Except for the segment Galleries all contracts include mostly one performance obligation. The allocation of the transaction price is based on these performance obligations.

For Gallery Network memberships and Auction House Partnerships, revenue is recognized when the Group meet its 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.

Therefore, revenue from gallery memberships, Price Database, advertising, and Auction House Partnerships are mainly recognized when transferred over time, whereas revenue from online auctions is recognized at a point in time. artnet acts as an agent for online auctions, and therefore, only recognizes the commission income. In contrast, the sale price of on artwork is not realized.

Revenue is measured at the fair value of the received, or to be received, minus any discounts, VAT, and other sales tax. The transaction price is allocated to the identified performance obligations for which the duration of the underlying contracts is mainly less than one year. As the transaction price is allocated based on the underlying contract, no further judgements are necessary.

As all contracts have a duration of one year or less, no performance obligations included in the financial statement of 2018 was satisfied in previous periods.

The outstanding performance obligations relate to the Price Database (1.324k EUR), Galleries (355k EUR), and Advertising (85k EUR).

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 contract liabilities as of December 31, 2018 amounting to 1,764k EUR, as compared to 1,522k EUR in the previous year. The contracted liabilities as of December 31, 2017 were completely recognized as revenue in 2018. The recognized contract liabilities are not subject to any accounting estimates as they are based on the outstanding performance obligation.

The contract assets included under the accounts receivable amount to 595k EUR.

15. Equity

	2018	2017
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 common 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 resolution of the Shareholder's Meeting on July 15, 2009, the common stock was conditionally increased by 560k EUR by issuing up to 560,000 new no-par value shares (Conditional Capital 2009/I) to the Company's Executive Board, members of the management of affiliated companies, as well as to employees of artnet AG or its subsidiaries. The 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, 2018, 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 Group's assets and liabilities are translated at the closing rate. Income and expense items are translated at the average exchange rate for the financial year. Since initial consolidation, exchange differences arising from translating assets and liabilities at closing rate and translating income and expense items at the average exchange rate for the financial year by volatile exchange rates are recognized directly in equity as a separate item "Foreign Currency Translation."

The foreign currency translation adjustment item also includes the translation difference resulting from exchange rate changes on intercompany loan receivables that qualify as part of a net investment. For an explanation of these exchange rate differences, please refer to Note 17 of the notes to the consolidated financial statements under foreign currency risk.

16. Capital Management

The capital structure for the Group consists primarily of current liabilities from current business transactions and equity. Equity is attributable to the shareholders of the parent company and consists mainly of common stock, additional paid-in capital, 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 flow.

17. Financial Instruments and Risks Arising from Financial Instruments

Financial Risk Management

The financial risk management system comprises all organizational regulations and activities for the systematic, regular, and Group-wide implementation of those processes that are necessary for risk management. A person responsible is appointed for each risk. The Management Board is regularly informed about the overall risk situation of the Group, which in turn reports to the Supervisory Board. The financial risk system is part of the risk management system, which is documented in a risk manual.

Significant risks monitored and controlled by the Group's financial risk management system include credit risk, liquidity risk, currency risk, and interest rate risk.

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 "Financial Assets measured at cost" (IAS 39: "Loans and Receivables)."

The Group's financial liabilities are accounts payable, other liabilities, and liabilities arising from finance leases. Financial 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 2018 and 2017 fiscal 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 2018 k EUR	Net Results 2017 k EUR
Loans and Receivables	(464)	(183)
Financial Liabilities	–	(13)
Total	**(499)**	**(196)**

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 remained at 1k EUR for 2018 and 2017 and are included in the net result of financial liabilities.

Credit Risk

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

The Group's credit risk is primarily attributable to its accounts receivables. Please refer to Note 4 for further information.

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 2019 fiscal year, mainly based 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 and project developments may be rescheduled, or their implementation may be extended.

Other current liabilities and accrued expenses have a remaining term of less than one year.

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

12/31/2018	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	967	967	967	–
Liabilities from Finance Leases	110	113	43	70

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

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 cash outflow in the 2019 fiscal year. An exception is the current provisions for legal disputes in France in the amount of 945k EUR (2017: 895k 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. Therefore, artnet does not anticipate a full cash outflow for these provisions in the 2018 fiscal year, contrary to the disclosure in the short-term area, considering all available options.

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 of artnet AG, which is located in a euro currency area, and the operating subsidiary Artnet Corp., which is located in the US-dollar-currency-area, 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	
	12/31/2018 k EUR	12/31/2017 k EUR	12/31/2018 k EUR	12/31/2017 k EUR
EUR	413	521	75	37
GBP	313	230	2	2

Additionally, the intragroup receivables validating in euros from Artnet Corp. against artnet AG amounted to 1,540k EUR as of December 31, 2018 (2017: 1,978k EUR). This bears a theoretical currency risk for Artnet Corp., which will not be realized. To minimize this currency risk, Artnet Corp. converted existing current intercompany receivables against 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. Therefore, the intercompany loan qualifies as a net investment according to IAS 21.15. Accordingly, exchange differences loan denominated in euros will be recognized directly in equity, 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 2018, currency exchange effects in the amount of (69k EUR) were recognized as a net investment directly in "Foreign Currency Translation," which decreased the equity (2017: 196k EUR increasing equity). In total, the amounts recorded directly in equity are 146k EUR as of December 31, 2018 (December 31, 2017: 72k 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 12/31/2018 k EUR	EUR 12/31/2017 k EUR	GBP 12/31/2018 k EUR	GBP 12/31/2017 k EUR
+10%				
Result	(32)	(94)	(19)	(14)
Equity	27	73	(2)	(2)
-10%				
Result	39	115	23	17
Equity	(33)	(89)	3	3

The value of the US dollar against the euro increased by 5% from 0.833 EUR on December 31, 2017 to 0.873 EUR on December 31, 2018.

Interest Rate Risk

The Group's companies have several fixed interest-bearing finance lease agreements in the amount of 110k EUR (2017: 29k EUR). As of December 31, 2018, there are no liabilities with a floating rate. 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 (Stock Option Plan 2009) - also resolved by the Shareholders' Meeting on July 15, 2009 - and comprised of 560,000 shares of common stock with a nominal value of 1.00 EUR each.

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, 2018, 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 have been exercisable since March 31, 2016. These options were not chosen to be used in the 2017 financial year. The outstanding options on December 31, 2018, had a weighted average remaining term of 1.91 years (2017: 2.91 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 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.

19. Personnel Expenses

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

Personnel Expenses by Expense Category	2018 k EUR	2017 k EUR
Cost of Sales	4,489	4,623
Sales and Marketing	4,171	3,746
General and Administrative Expenses	1,615	1,636
Product Development	1,080	1,975
Total Personnel Expenses	**11,354**	**11,981**

While personnel expenses decreased in the operating currency of US dollars by 1% to 13,395k USD (2017: 13,504k USD), it also decreased in the reporting currency of euros by 6% due to exchange rate effects.

The total personnel costs in the 2018 and 2017 fiscal years include social security expenses of 1,357k EUR and 1,264k EUR, respectively, and 401(k) expenses of 116k EUR and 103k EUR, respectively.

On average, the Group employed 128 full-time employees in 2018, as compared to 117 in the previous year. Additionally, the Group employed five part-time employees in 2018 and 2017. In sales and other departments, the Group had three freelancers, as compared to six in the previous year.

Taken into account part-time and freelance employees, artnet employed a monthly average of 136 and 128 employees, respectively, in 2018 and 2017. The employees are allocated to the following expense categories:

	2018	2017
Cost of Sales	68	65
Sales and Marketing	42	37
General and Administrative Expenses	13	13
Product Development	13	13
Total	**136**	**128**

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 2018 and 2017, the matching contributions were 116k EUR and 103k 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:

	2018 EUR	2017 EUR
Numerator (Earnings): Net income for the fiscal year	622,120	695,345
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	17,775	18,266
Weighted average number of ordinary shares used to calculate dilutive earnings per share	5,570,761	5,571,252

The weighted average exercise price of the stock options granted (4.43 EUR) exceeds the average share price in 2018 (3.46 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 17,775 (2017: 18,266) shares was calculated using the treasury stock method. Diluted earnings per share of 0.19 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:

	2018 k EUR	2017 k EUR
Scheduled Amortization/Depreciation	488	410
Personnel Expenses	11,354	11,981

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 (2017: 1k EUR). In 2017, interest expenses occurred primarily for the payment of commercial rent tax in New York City in the amount of 35k USD.

Other Income and Expenses

In 2018, the realized and unrealized gains on currency exchange rates amounted to 35k EUR (2017: currency exchange rate loss in the amount of 130k EUR).

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, which provides a 24-hour art market newswire, informing users about the events, trends, and people shaping the global art market

The segment reporting is shown in multilevel Contribution Margin calculations. In the first stage, the difference of the generated revenues and the direct attributable 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. Indirect 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 2018, Management made a decision to change the allocation of direct sales costs. This change affects the Contribution Margin II and is reflected in the updated 2017 and 2018 calculations.

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.

2018	Revenue k USD	Contribution Margin II k USD
artnet Galleries	6,408	3,659
artnet Price Database	8,004	4,932
artnet Auctions	4,081	36
artnet News	3,122	(508)
Total	**21,615**	**8,119**

2017	Revenue k USD	Contribution Margin II k USD
artnet Galleries	6,147	3,140
artnet Price Database	7,829	4,479
artnet Auctions	4,051	(199)
artnet News	2,742	(317)
Total	**20,769**	**7,102**

As mentioned above, the Group decided to change the allocation of the direct sales costs process in January 2018. To accurately allow for the year-over-year segment report comparison, the 2017 information was adjusted to reflect these changes retroactively. Due to this retroactive adjustment, the CM II for artnet Galleries increased from 2,996k USD to 3,140k USD and the artnet Price Database CM II increased from 4,313k USD to 4,479k USD. Meanwhile, the CM II decreased for artnet News from -8k USD to -317k USD. artnet auctions remained unaffected.

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	2018 k USD	2017 k USD
Contribution Margin II	8,119	7,102
Fix Costs included in Sales Expenses Including Depreciation 576k USD (Previous Year: 463k USD)	2,671	2,328
Fix Costs included in General and Administrative Expenses	3,999	3,821
Fix Costs included in Product Development Expenses	544	546
Operating Income	**905**	**407**

Advertising revenue will be allocated to the segments where banners have been placed. The following table reconciles the advertising revenue in the consolidated statement of comprehensive income to the revenue reported in the segment income statement:

2018	Revenue in Consolidated Income Statement k USD	Allocated Advertising Revenue k USD	Revenue by Segment k USD
Segments			
artnet Galleries	5,377	1,031	6,408
artnet Price Database	7,664	340	8,004
artnet Auctions	4,075	6	4,081
artnet News	–	3,122	3,122
Allocated Advertising Revenue	4,499	(4,499)	–
Total	**21,615**	**–**	**21,615**

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**

While the allowances for doubtful receivables presented below affect the individual segment results as non-cash expenses, the allocation of scheduled depreciation and amortization to the individual segments is reported regularly to the Executive Board:

2018 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
artnet Galleries	146	123
artnet Price Database	161	153
artnet Auctions	176	220
artnet News	93	4
Total	**576**	**500**

2017 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
artnet Galleries	126	94
artnet Price Database	148	94
artnet Auctions	122	204
artnet News	67	–
Total	**463**	**392**

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	2018 k EUR	2017 k EUR
US	10,213	10,427
Europe (excluding Germany)	4,394	4,749
Germany	1,196	1,266
Other	2,549	1,985
Total	**18,322**	**18,426**

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 488k EUR, is mainly allocated to assets in the United States (2017: 410k 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, 2018 and 2017, the following future minimum lease payments result from existing office lease agreements:

Lease Payments	2018 k EUR	2017 k EUR
Expiring in Less Than One Year	918	855
Expiring Between Two and Five Years	3,090	3,486
Expiring in More Than Five Years	–	305
Total	**4,008**	**4,646**

Office lease expenses for the Group in 2018 and 2017 amounted to 883k EUR and 887k 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 81k EUR in 2018, of which 6k EUR resulted from the previous year, and 71k EUR in 2017. In addition, the Company recorded 12k EUR in 2018 and 18k EUR in 2017, for other services. All fees are recognized as expenses in 2018 and 2017, 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 2018 and 2017 fiscal years, Jacob Pabst received the following remuneration from the Group:

	2018 k EUR	2017 EUR
Fixed Salary	318	322
Value of Additional Payments (Health Insurance)	11	12
Fixed Remuneration Components	329	334
Bonus (Variable Compensation)	32	33
Total	**360**	**367**

Supervisory Board

In the 2018 fiscal year, the following people were Supervisory Board members:

- Hans Neuendorf, Berlin, Germany, chairman
- Dr. Bernhard Heiss, Munich, Germany, deputy chairman from May 10, 2017, to June 13, 2018 (resigned)
- Dr. Kilian Jay von Seldeneck, Berlin, Germany, member from May 10, 2017, to April 30, 2018 (resigned)
- Bettina Böhm, Berlin, Germany, appointed as member by District Court Charlottenburg on May 8, 2018, and elected as member at shareholder meeting on May 9, 2018
- Dr. Pascal Decker, Berlin, Germany, appointed by District Court Charlottenburg to replace Dr. Bernhard Heiss on August 8, 2018

Remunerations in the following amounts were paid to the members of the Supervisory Board in the 2018 and 2017 fiscal years:

	2018 k EUR	2017 k EUR
Hans Neuendorf	50.0	45.5
Andreas Langenscheidt	–	18.0
Dr. Bernhard Heiss	17.0	33.0
Dr. Kilian Jay von Seldeneck	8.3	16.0
Bettina Böhn	15.4	–
Dr. Pascal Decker	15.1	–
Total	**105.8**	**112.5**

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

During the fiscal year, Hans Neuendorf sold two items on the online auctions platform, artnet Auctions. In accordance with the current terms and conditions, no commission was charged for these sales, as the value of each artwork exceeded 10,000 USD. In 2017, Hans Neuendorf did not sell any items on artnet Auctions.

The related parties of Mr. Neuendorf (chairman) and the related parties of Mr. Pabst (CEO) worked or provided services totaling in the amount of 348k EUR in 2018 and 251k EUR in 2017, 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. In 2018, the agreement was extended until August 31, 2019. 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 2018 and 2017, Mr. Neuendorf invoiced 336k EUR and 334k EUR, respectively. An amount of 28k EUR was not paid as of December 31, 2018.

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 or cost savings 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 advisors 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 2019 fiscal year, with an exception for the provision in the amount of 945k EUR (2017: 895k 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 2019. 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, 2018 to March 18, 2019, 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 a 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**
10/6/2015	**Brewster Fine**	+	3	10/1/2015	3.24	182,198		
10/12/2016	**Andreas Langenscheidt**	+	3	10/6/2016	3.3	185,850		
5/3//2017	**Rüdiger K. Weng**	+	3	5/2/2017	3.02		170,100	
	Rüdiger K. Weng A+A GmbH							
	Weng Fine Art AG				*3.02*	*170,100*		
12/20/2018	**Dr. Kyra Heiss**	+	10	8/31/2018	12.25	689,889		
1/30/2019	**Andrea Sybill Schaeffer**	+	3, 5	4/11/2018	5.41		304,922	*Mr. Klaus Jochen Schaeffer passed away on April 11, 2018. As of May 27, 2010, he along with then-shareholder Schaeffer Immobilien GmbH had announced a voting share of 8.52%.* *SSP Immobilien GmbH & Co. KG is the parent company of Schaeffer Immobilien GmbH, which in turn is the general partner of SSP Immobilien GmbH & Co. KG (so-called "Einheits-KG"). At the time, Mr. Klaus Jochen Schaeffer held 60% of SSP Immobilien GmbH & Co. KG, while Mrs. Andrea Sybill Schaeffer held 40%.* *On October 6, 2017, all artnet shares held directly by Schaeffer Immobilien GmbH were transferred to its parent company, SSP Immobilien GmbH & Co. KG.* *Since the death of Mr. Klaus Jochen Schaeffer on April 11, 2018, Mrs. Andrea Schaeffer is the sole limited partner of artnet shareholder SSP Immobilien GmbH & Co. KG.*
	SSP Immobilien GmbH & Co. KG	+	*3, 5*		*5.41*	*304,922*		

Berlin, March 18, 2019

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, 2018, 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, 2018, to December 31, 2018, 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, 2018 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the declaration on corporate governance posted on the Group's website and referenced in the group management report in the section "4: Declaration of Corporate Governance Pursuant to § 289f and § 315d of the German Commercial Code."

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 (Handelsgesetzbuch: German Commercial Code) 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, 2018, and of its financial performance for the financial year from January 1, 2018 to December 31, 2018 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 posted on the Group's website and referenced in the group management report in the section "4: Declaration of Corporate Governance Pursuant to § 289f and § 315d of the German Commercial Code".

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's 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 as 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, 2018 to December 31, 2018. 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, 2018 to December 31, 2018, the Group reports revenue of 21,615k USD (18,322k EUR). Also, as of December 31, 2018, payments of 2,021k USD (1,764k EUR) are recorded as contract liabilities. In particular, artnet offers contracts for art market related IT services with different term periods, for which customers make regular advanced payments (contract liabilities). 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 section "14. Deferred Revenue and Revenue Recognition" of the notes,to the consolidated financial statements and in the sections "Result of Operations" and "Revenue Growth" of 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 contract liabilities. 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 contract liabilities. 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. Among other things, we assessed the adequacy of the established processes and controls from the formation of contract and invoicing up to the recognition of revenue and deferred revenue—in particular, with regard to the first-time application of IFRS 15. Building on this, we have, in the course of our audit, randomly tested what we consider to be material controls with regard to their continued effectiveness and assessed, with the involvement of specialists, the relevant IT systems supporting the recognition of revenue and deferred revenue. Also, based on data analysis, we examined the complete and accurate transfer of accounting-related information between the different IT systems and its correct financial reporting. We also tracked and assessed individual transactions in random samples.

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 as of December 31, 2018, deferred tax assets of 1,418k USD (1,237k EUR) are reported in the consolidated balance sheet, which are almost completely attributable to tax loss carryforwards and deductible temporary differences in the tangible fixed assets 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 section "8. Taxes and Deferred Taxes" in the notes to the consolidated financial statements and in the sections "Group Profit or Loss" and "Financial Status" in 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 director.

There is a risk for the consolidated financial statements that recognized deferred tax assets will not be recoverable in the future, due to a lack of sufficient taxable income and/or their gradual decline.

b) Review Procedure and Conclusions

First, we reconciled the loss carryforwards with the tax assessments and tax calculations for the current financial year.

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.

In addition, we reconstructed the adjustments of assumptions in order to arrive at a plan for taxable income according to US tax law.

Furthermore, we acknowledged whether the gradual decrease of loss carryforwards for federal taxes in accordance with US tax law had been appropriately considered. In the case of deferred tax assets based on temporary differences in fixed assets, we have, in particular, acknowledged that a compensation of temporary differences is taken into account for income planning.

We understood the assumptions and discretionary decisions made by the executive director 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, 2018, intangible assets in the amount of 2,520k USD (2,200k EUR) are reported. In the 2018 financial year, development costs of 1,378k USD (1,240k EUR) were capitalized for the first time. These are attributable to project FALCON, in particular.

The Company statements regarding capitalized development costs are included in the section “2. Summary of Significant Accounting Policies” and “7. Intangible Assets” in the notes to the consolidated financial statements and in the sections “Changes in Costs and Results” and Financial Status” of the economic report, as well as in the sections “Research and Development” and “Opportunities” 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 executive director.

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 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 director 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.

Other Information

The executive director is responsible for the other information. The other information comprises:

- the declaration on corporate governance posted on the Group's website and referenced in the group management report in the section "4. Declaration of Corporate Governance Pursuant to § 289f and § 315d of the German Commercial Code",
- 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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The executive director is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS's 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 director is 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 director is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going 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 director is 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 director is responsible for such arrangements and measures (systems) 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 director and the reasonableness of estimates made by the executive director and related disclosures.
- Conclude on the appropriateness of the executive director 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 director in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive director 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 9, 2018. We were engaged by the Supervisory Board on January 24, 2019.

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 18, 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Florian Riedl	Till Kohlschmitt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Any publication or dissemination of the consolidated financial statements and/or the group management report in a form deviating from the audited version (including the translation into other languages), requires a new statement by us if our report is cited or our audit is referenced; reference is made to § 328 HGB.

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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

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