artnet AG

Annual Report 2019

Key Financial Figures for the Artnet Group

	12/31/2019	12/31/2018	Difference (Balance)
Revenue (k USD)	21,878	21,615	263
Profit from Operations (k USD)	197	905	(708)
Earnings Before Tax (k USD)	5	819	(814)
Earnings per Share (USD)	0.00	0.22	(0.22)
Weighted Number of Shares (k USD)	5,553	5,553	–
Cash Flow from Operating Activities (k USD)	1,816	1,255	562
Staff (Year End)	122	131	(9)
Cash and Cash Equivalents (k USD)	539	957	(418)
Equity (k USD)	3,586	3,371	215
Total Assets (k USD)	13,259	8,700	4,559

Development of the Artnet AG Share 1/1/2019–12/31/2019

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Dear Shareholders,

Jacob Pabst
CEO, Artnet AG

The world is facing the greatest threat to public health and the economy in decades. The outbreak of the novel coronavirus and its global spread since the end of 2019 brought entire countries to a near standstill. The global economy will likely suffer the worst downturn since the Great Depression. Lockdowns and social distancing measures also hit the art world hard. Auctions, art fairs and exhibitions were canceled or postponed, museums and galleries closed. Luxury retailers, loyal advertisers on Artnet News, shut their stores and cut advertising budgets. In order to evaluate the new situation thoroughly, it was decided to postpone the release of the Annual Report 2019, therefore.

Events in the past year had already put a severe strain on the global economy. Tensions between the United States and Iran flared up. Hong Kong, which is an important hub for the art market, was rocked by anti-government protests. Moreover, there was the ongoing trade dispute between the United States and China, the two largest art markets, where the coronavirus crisis later caused the most severe disruptions.

We are tackling this crisis from a position of strength and see great opportunities. The crucial roles that the Internet and e-commerce play during the current standstill will lead to fundamental changes in consumer behavior and will leverage Artnet's strengths as the market leader in the online art market.

Artnet Auctions is the sole provider of online-only auctions and offers collectors and dealers one of the few options to keep the art trade going. Our online news service, Artnet News, has become the primary source of information for the crisis-ridden art scene. We are generating more traffic than all other art publications combined. Market participants crave orientation and reliable information in this uncertain phase. That's why the Price Database, whose wealth of data is also the basis of Artnet News' reporting, has become more indispensable for the art market than ever before. Galleries now almost entirely depend on the internet for sales and marketing and can reach an audience of millions online through our Gallery Network – despite the crisis.

Artnet turned 30 last year, and we are beginning our fourth decade as the undisputed leader for art market data and information. Our global reach is unsurpassed. All major auction houses, galleries, collectors as well as financial institutions, media organizations and government agencies rely on the quality of our data and services. Since the introduction of the Price Database in 1989, we have spearheaded the technological transformation of the art market. Our online archive for auction results brought price transparency to an opaque art market for the first time and triggered its enormous expansion. To this day, the Price Database remains the gold standard of the art world and the core of Artnet. The Gallery Network enables members to promote artists globally to our vast online audience. Artnet Auctions allows buying and selling of art online in an easier, faster and more cost-effective way than ever before, and Artnet News has become the art world's leading digital news platform.

The international auction market for fine art, which often follows economic trends in developed countries, was weak in 2019. According to the Price Database, the total annual auction sales value for fine art fell globally from 14.8 billion USD to 13.1 billion USD year-over-year, a decrease of 11%. A significant drop in sales volume in the United States, the world's largest art market affected the results negatively, In 2019, sales volume in the United States, also Artnet's key market, declined by 19%.

Against this challenging backdrop, Artnet grew total revenue by 1% to 21.9 million USD, as compared to 2018. The overall revenue growth resulted from the continuously increasing demand for advertising space on Artnet News. In 2019, advertising became the second-largest revenue source for Artnet behind the Price Database. However, declining revenues in the Gallery Network and Auctions segments slowed the anticipated overall growth. Accordingly, the operating income was lower than expected at 197k USD.

Advertising revenue increased by 20% to 5.4 million USD year-over-year. For the first time, Artnet News contributed more than three-quarters to advertising revenues and almost 25% to total revenues. Artnet News has solidified its reputation as the leading source of exclusive information and in-depth commentary about the art world. As a result, it is widely quoted by major news outlets, driving traffic to our site. News traffic remained strong and was up 23% year-over-year. This strengthens our brand and leads to increased traffic overall, making Artnet a sought-after destination for advertising campaigns of luxury brands such as Cartier and Tiffany & Co.

Price Database revenue remained steady at 7.6 million USD in 2019 after a record in the previous year. The number of auction results exceeded 13 million for the first time. The stable demand for our data underlines both the art markets' trust in our brand as well as an unabated desire for price transparency.

Revenues for the Gallery Network fell by 7% to 5.0 million USD. Challenging market conditions for smaller and mid-sized galleries and a highly competitive environment led to a decrease in the number of member galleries. Smaller galleries, a critical customer base for Artnet, continue to struggle with high operating costs, including the often pricy participation in art fairs. The coronavirus crisis exacerbates these business challenges. Galleries worldwide are facing bankruptcy. But we are sensing increased interest from galleries wanting to take advantage of online opportunities, especially now in these times of crisis.

Fee-based revenue for Auctions decreased by 5% to 3.9 million USD. We restructured the auctions department to increase efficiency in 2019 and have therefore reduced the number of auction specialists by around a third. We are confident that these measures, combined with an even sharper focus on the quality of the consignments, will lead to further increases in average lot prices, higher sell-through rates, improved customer satisfaction for buyers and sellers, and growing revenue.

The average price of lots sold at Artnet Auctions increased by 5% to 14,750 USD in 2019. The average sell-through rate increased by two percentage points. Top lots again sold well into the six-figure-range, among them a wall sculpture from Anish Kapoor, which sold for 300.000 USD in March 2019. Several artists achieved world record prices on our platform. Prints & Multiples performed particularly well this year, but sales of contemporary paintings struggled in the second half of the year.

Our position in the industry is stronger than ever. We are revamping our technological infrastructure, refreshed our brand to celebrate our 30th anniversary, are redesigning our website and continually improve our products. The coronavirus crisis presents us with unique challenges, but it is also accelerating the digital transformation of the art market, which we spearheaded since our founding. As the leading online provider of information, analysis and auctions for fine art, Artnet is in an ideal position to benefit from the growing importance of e-commerce in the art market.

Berlin, June 24, 2020

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 367,000 artists and designers. Since 2009, the Price Database Decorative Art has provided results for international antique auctions. Today, the Price Database contains over 13.5 million auction results from more than 1,850 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 217,000 artworks by nearly 21,000 artists from around the globe, this product is the most comprehensive platform for galleries online. The Gallery Network serves dealers and art buyers in equal measure by giving them an overview of the global market and price trends while allowing users to be in direct contact with the gallery.

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

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

Company Background

Artnet.com AG was incorporated under the laws of Germany in 1998. In 1999, Management took the Company public on the Neuer Markt of the Frankfurt Stock Exchange. In 2002, Artnet.com AG changed its name to Artnet AG. On October 4, 2002, Artnet AG left the Neuer Markt and was then listed in the General Standard of the Frankfurt Stock Exchange, a segment of the EU-regulated Geregelter Markt. Effective February 1, 2007, Artnet AG is listed in the Prime Standard of the Frankfurt Stock Exchange, the segment with the highest transparency standards. Its principal holding is its wholly owned subsidiary, Artnet Worldwide 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), as applied in the European Union.

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 2019 financial year and up until the publication of the 2019 Annual Report, the Supervisory Board held five meetings in which all Supervisory Board member participated in full. The meetings were held on March 19, 2019 (conference call), May 15, 2019 (inaugural meeting), August 18, 2019 (attendance meeting in Berlin), November 8, 2019 (attendance meeting in Berlin with the Management Board by phone), January 28, 2020 (attendance meeting in Berlin), and on April 30, 2020 (conference call with CEO). On June 25, 2020, the meeting for the approval of the balance sheet was held with the auditing and tax consulting Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, via conference call. In addition to the Supervisory Board and the auditors, Mr. Jacob Pabst, CEO, attended this meeting.

There were no changes to the Supervisory Board in the 2019 financial year. All members of the Supervisory Board were elected at the Annual General Meeting on May 15, 2019, until the end of the Annual General Meeting that decides on the discharge of the members for the 2019 financial year. At the inaugural meeting on May 15, 2019, Mr. Neuendorf was elected Chairman of the Supervisory Board and Dr. Decker was elected Deputy Chairman of the Supervisory Board.

Mr. Pabst was the sole member of the Artnet AG's Management Board of Artnet AG throughout the 2019 financial year 2019. His contract was extended in March 2019 until July 1, 2021.

The Supervisory Board received detailed information from the Management Board in verbal and written reports on business development, corporate strategy and all 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. These reports contain all the key information and figures on the company. Monthly reports, quarterly reports as well as the semi-annual report 2019 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 and projects, in particular, the Auctions segment and the FALCON project, which is extraordinarily important for the development of the company. Furthermore, the liquidity situation regarding a claim for damages, the budget for the financial year 2020, and financing were discussed. In coordination with the board and at the initiative of Dr. Decker, Dr. Decker and Mr. Neuendorf started to negotiate a credit line with banks in the second half of 2019. The talks and negotiations will continue in the current financial year 2020. With the help of possible financing, developments such as the FALCON project shall be completed sooner to accelerate Artnet's growth. The expenses for the FALCON project were also discussed with the Management Board. Furthermore, corporate governance and compliance issues were discussed. The declaration of conformity with the German Corporate Governance Code was adopted. The Supervisory Board has not formed any committees.

In the fall of 2018, the Supervisory Board was informed by the Management Board that the German Financial Reporting Enforcement Panel (FREP) would audit the consolidated financial statements and Group Management Report as of December 31, 2017. as well as the annual financial statements and Management Report as of December 31, 2017, by way of random sampling per section 342b (2) sentence 3 no. 3 of the German Commercial Code (HGB). On September 17, 2019, the Management Board was informed by the Enforcement Panel that no errors in the financial reporting for the 2017 financial year have been identified.

The annual financial statements of Artnet AG under HGB and the consolidated financial statements under IFRS, as applied in the European Union, as well as the Management report and the Group Management Report were audited by the auditing firm 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 in accordance with HGB and the consolidated financial statements in accordance with IFRS 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 annual financial statements and explain the results of their audit.

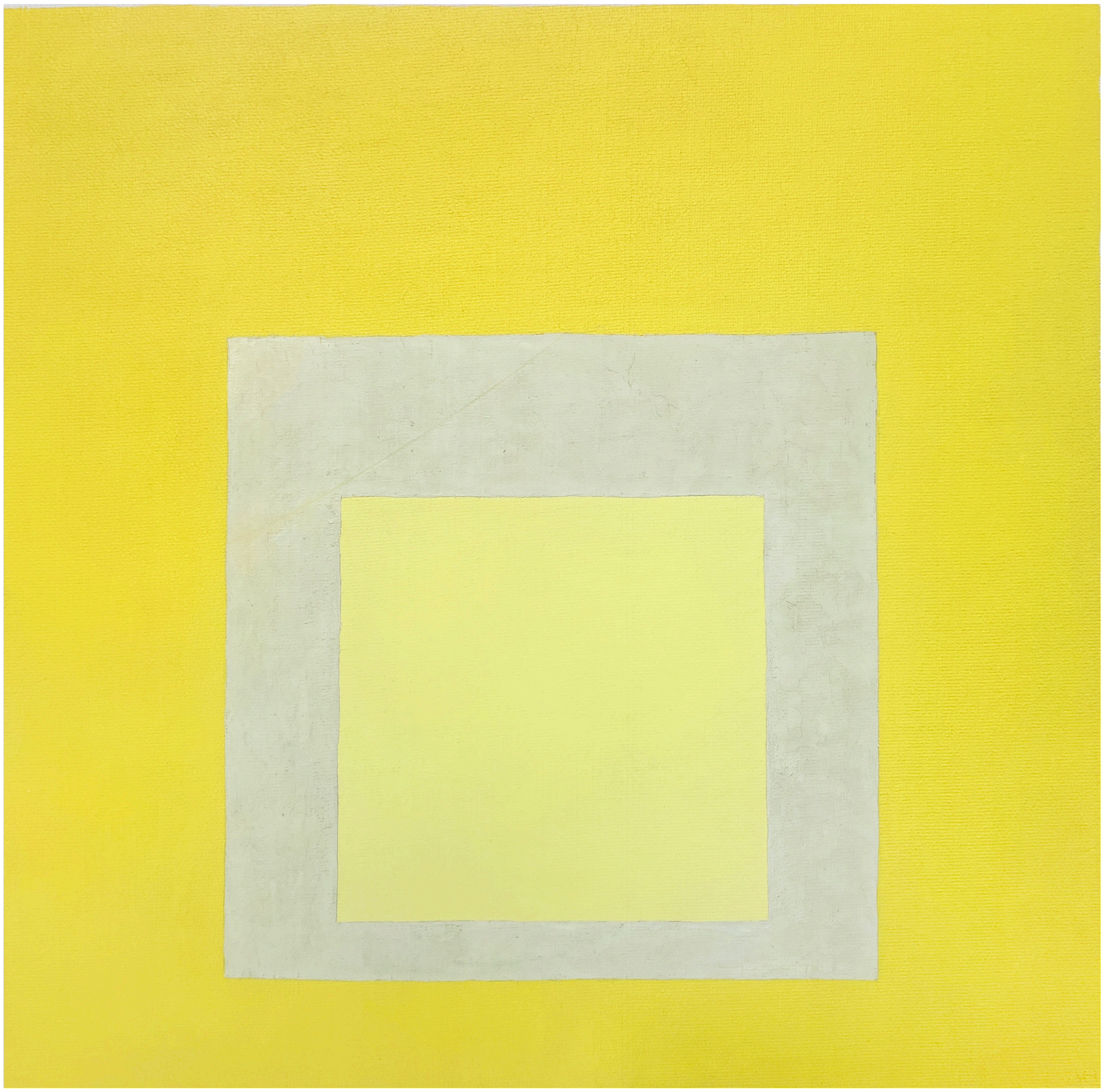
The Supervisory Board concurred with the results of the audit. The Supervisory Board reviewed the annual financial statements and the consolidated financial statements of Artnet AG and the associated management reports. After completing its in-depth review, the Supervisory Board raised no objections. 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 June 25, 2020. The annual financial statements as of December 31, 2019, were thus adopted. The consolidated financial statements as of December 31, 2019, were also approved by the Supervisory Board by way of a resolution on June 25, 2020.

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

Berlin, June 25, 2020

For the Supervisory Board
Hans Neuendorf, Chairman

Andy Warhol, *Orangutan (from Endangered Species)* (1983)
Sold for 156,000 USD (with premium) on January 30, 2019



Josef Albers, *Study for Homage to the Square: Yellow Climate* (1961)
Sold for 264,000 USD (wiht premium) on September 25, 2019

Corporate Governance Report

Artnet attaches great importance to corporate governance. Artnet AG complies with the recommendations of the German Corporate Governance Code (GCGC) 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, No. 5.4.1 para. 2, and section 7.1.2 sentence 3 of the then relevant version of the DCGK of February 7, 2017, published in the Federal Gazette on April 24, 2017, which has the same content as Recommendation F.2 of the new version of the DCGC of December 16, 2019, published in the Federal Gazette on March 20, 2020. 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 no purchases or sales of at least 5k EUR during the calendar year. On June 24, 2020, 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, 2019. 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 2: 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, January 24, 2020

Jacob Pabst
CEO, Artnet AG

Hans Neuendorf
Chairman of the Supervisory Board, Artnet AG

Update to the Declaration of Conformity dated January 24, 2020:

The Management Board and Supervisory Board of Artnet AG issued the last Declaration of Compliance with the DCGK in accordance with Section 161 AktG on January 24, 2020. In addition to the deviations listed in this Declaration of Compliance, the Management Board and the Supervisory Board declare the following additional deviation from section 7.1.2 sentence 3 of the then relevant version of the DCGK of February 7, 2017, published in the Federal Gazette on April 24, 2017, which has the same content as Recommendation F.2 of the new version of the DCGK of December 16, 2019, published in the Federal Gazette on March 20, 2020, contains:

"The consolidated financial statements 2019 will not be published within the 90-day period recommended in the German Corporate Governance Code, but within the statutory period. In the wake of the COVID-19 pandemic, the company must intensively evaluate its effects on Artnet AG and the consolidated financial statements, which will cause the publication of the consolidated financial statements to be postponed. In the future, Artnet AG intends to publish its consolidated financial statements within the recommended deadlines."

Berlin, April 10, 2020

Jacob Pabst
CEO, Artnet AG

Hans Neuendorf
Chairman of the Supervisory Board, Artnet AG

Update to the Declaration of Conformity dated January 24, 2020, and April 10, 2020:

"In addition to the update declaration dated April 10, 2020, the Management Board and the Supervisory Board declare that contrary to the announcement that due to the currently prevailing COVID 19 pandemic it will no longer be possible to publish the consolidated financial statements within the statutory deadlines of Section 325 (4) HGB. The consolidated financial statements will be published as soon as possible."

Berlin, April 27, 2020

Jacob Pabst
CEO, Artnet AG

Hans Neuendorf
Chairman of the Supervisory Board, Artnet AG

Update to the Declaration of Conformity dated January 24, 2020, April 10, 2020, and May 13, 2020:

In addition to the deviations listed, the Management Board and the Supervisory Board declare the following additional deviation from section 7.1.2 sentence 3 of the then relevant version of the DCGK of February 7, 2017, published in the Federal Gazette on April 24, 2017, which has the same content as Recommendation F.2 of the new version of the DCGK of December 16, 2019, published in the Federal Gazette on March 20, 2020, contains:

"The interim financial information for the first quarter 2020 will not be published within the 45-day period recommended in the German Corporate Governance Code. In the wake of the COVID-19 pandemic, the company intensively evaluate its effects on Artnet AG, which will cause the publication to be postponed."

Berlin, May 13, 2020

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, June 24, 2020

Jacob Pabst
CEO, Artnet AG

Group Management Report 2019

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 a wholly owned subsidiaries, Artnet UK Ltd., based in London. The former subsidiary Jay Art GmbH, Berlin, was liquidated and deleted from the commercial register on May 14, 2020.

With a monthly average of 3.6 million visitors to its domains (2018: 3.0 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 operating segments: the Artnet Price Database, Artnet Galleries, Artnet Auctions, and Artnet News.

The Price Database is an online database of more than 13.7 million (2018: 12.5 million) color-illustrated auction results from more than 1,850 (2018: 1,800) 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). Furthermore, 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 is also part of the Artnet Price Database segment. Reports created by Artnet Analytics analyze the market development of artists, art movements, art genres or an individual selection of artworks, all of which can be compared to indices.

The Gallery Network represents approximately 1,100 (2018: 1,100) of the world's most prestigious galleries from 71 countries. Members of the Gallery Network are indexed by specialty and location, with approximately 217,000 artworks by 21,000 artists featured on the platform in 2019 (2018: 210,000 artworks by 22,000 artists). 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 are the ideal tool for auction houses to expand the international presence of their auctions and direct a large number of potential buyers directly to their own website.

With Artnet Auctions, Artnet has become a transaction platform in the competitive online auctions market. The main advantages for buyers and sellers are the accessible prices and fast execution time for transactions, which can be finalized in just a few weeks, as compared to the six months to a year required by brick-and-mortar auctioneers. Through Artnet Auctions, artworks by sought-after modern and contemporary artists regularly sell in a five- to six-figure dollar range.

Artnet News is the world's dedicated 24-hour international online art market newswire (http://news.artnet.com). 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, for thousands of clients and millions of users and throughout the world. A wide range of products and services enable Artnet to diversify its revenue sources. Using cutting-edge technology, artificial intelligence, and a dedicated team of specialists and experts, Artnet will continue to transform the art market. Artnet has expanded its product offering, in particular by launching Artnet Auctions and more recently Artnet News, which are both financed from Artnet's cash flow. Financial stability is a key objective to the group. This is ensured by a detailed budget and the close monitoring of all key financial and performance indicators throughout the year. Generating profits to invest in product development and product improvements is a priority. Given that Artnet operates in a highly competitive market, and in the light of the coronavirus crisis, a dividend payment remains dependent on a profitability in all segments.

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, revenues and the Contribution Margins are determined and assessed as key financial indicators in comparison with the budget and prior-year figures. Earnings before interest and taxes (EBIT) are of major importance to the result of operations. With regard to 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, these indicators include the number of membership terminations and renewals, as well as the addition of new memberships. The following leading indicators are important for the Price Database: the number of subscribers; the number of auction houses whose auction results are added; the time it takes the team to add data before and after an auction; and the total number of added auction results. Relevant data for Artnet Auctions include the sell-through rate by volume and value, as well as the average price of lots sold. 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. Important indicators of Internet advertising analyzed by Artnet are the price for 1,000 impressions (cost per mille), actual impressions, and the visibility of the ad on the site.

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 and engineers use software based on Microsoft technology, which gives flexibility to adapt applications to customers' ever-changing needs.

FALCON

In 2018, Artnet began to completely rebuild its IT infrastructure with the project FALCON. It is the most significant undertaking since the founding of the company in 1989. Its ultimate goal: the complete automation of Artnet's production process—leading to reduced maintenance costs for existing products and improved performance of the Development Team.

FALCON is a revolutionary effort to ensure that Artnet has the right technology foundation to successfully compete and grow in a rapidly changing business environment. It will make Artnet faster, more flexible, and more efficient. Operational and personnel costs will be lower. Productivity will increase. New products will be developed and launched more quickly.

Artnet, like a lot of other older tech businesses, built proprietary software systems. In the course of the usual technology maturation process, this software is becoming outdated and needs to be replaced. With FALCON, Artnet is also moving to a modern manufacturing process, becoming a software factory, as it were. Artnet is investing in the creation of a system that will be able to adapt to change in the future.

Since software programs are mostly unique, the production process of most companies is not unlike the way a blacksmith shop operated in the 17th century—as opposed to modern, highly efficient factories with assembly lines, just-in-time delivery and a high degree of automation. This is not surprising since software is a relatively new industry and only now seems to enter into its own industrial revolution.

FALCON will allow Artnet to produce products similar to the way cars are built in a factory. Instead of cars, Artnet, of course, manufactures components of a website, features that enable the bidding at online auctions, the uploading of images from a gallery's inventory or the search for auction results in a database.

There are many benefits to a factory approach. Increased consistency will lower the cost of training and maintenance. Reusable code components lower the risk of design flaws and defects, thereby ensuring quality. The streamlining and automating of product development increases productivity and reduces personnel costs as well. In a more automated world, smaller teams can outperform large groups of employees. Also, Artnet will be able to buy specialized software from external vendors much less expensively than developing it in-house.

The backbone of the software assembly line is completed. So is the development of certain reusable components, internal tools, and buttons that affect the visual front-end of the site. Recently, our software engineers focus on the middle-tier of the project—ensuring that the systems can handle more complex issues like authentication (the log-in process) or subscription and billing. The final part of the project will focus on the back-end, data storage for the Price Database, or online auctions. The project should be completed by 2022. In view of the coronavirus crisis, software engineers have to partly work on projects to support customers directly. Therefore, the schedule may be delayed.

Project FALCON has already yielded results: Quality control has become more automated, thereby cutting the time for testing before the publication of the recent Artnet Intelligence Report.

By moving Artnet to a modern manufacturing process, FALCON secures the Group's competitive advantage for years to come. It is a long-term investment in Artnet's future.

2. Economic Report

2.1 Macroeconomic and Industry Conditions

Global Economic Situation

The global economic expansion weakened in 2019 against the backdrop of ongoing trade conflicts between the United States and China as well as increasing geopolitical tensions. According to the International Monetary Fund (IMF), global economic growth amounted to 2.9% last year after 3.6% in 2018.

Projections in early 2020 pointed to a tentative stabilization. However, the outbreak of a novel coronavirus pandemic in spring 2020 led to a global health emergency which, according to the IMF, could lead to the worst global economic downturn since the Great Depression of the 1930s.

Last year, economic growth in both the United States and China was mainly affected by the trade dispute. Economic growth in the United States, the biggest market for fine art auctions, in 2019 slowed to an estimated rate of 2.3%, after expanding 2.9% in 2018.

In China, the second-largest art auction market in the world, growth slowed from 6.7% in 2018 to 6.1% in 2019. In addition to the trade conflict, regulatory tightening in the financial sector hurt the country's economic growth.

In the United Kingdom, the third-largest art market in the world, the estimated expansion rate increased slightly from 1.3% in 2018 to 1.4% in 2019 despite continuing uncertainties in connection with the withdrawal from the EU (Brexit). The UK left the EU on January 31, 2020, and entered an 11-month transition period which includes negotiations for a new free trade agreement.

Growth in the eurozone fell from 1.9% in 2018 to 1.2% in 2019 due to weaker foreign demand.

Art Market Development

The typically volatile world market for fine art auctions contracted in 2019 after a generally strong performance in the year before. The market is influenced by global economic trends, especially in developed countries. Following the outbreak of the coronavirus pandemic, the anticipated global recession and the cancellation of many auctions are expected to have a corresponding negative impact on the art market in 2020. According to the most recent Artnet Price Database data, global auction sales value for fine art in 2019 decreased by 11% to 13.1 billion USD, as compared to the previous year, due to declining prices in top price brackets. The overall performance was negatively affected by a substantial decline in sales volume in both the United States and the United Kingdom after a robust showing last year. Part of the decline was due to tax reform in the U.S. The new tax code eliminated a loophole, the so-called 1031 exchange, which made it less appealing for collectors to buy high-priced works. The U.S.-China trade war as well as the uncertainty surrounding Brexit caused a general economic slowdown which also affected the market for art.

The United States, Artnet's core market, remained the world's biggest auction market for fine art with a market share of 38% in 2019. However, sales value in the U.S. decreased by 19% to 5.0 billion USD year-over-year. In China and the United Kingdom, sales values declined as well. The Chinese market contracted by 5% to 3.4 billion USD year-over-year. Sales value in the UK dropped by 19% to 2.2 billion USD. Some of the sales appear to have shifted to France. Against the backdrop of an overall declining market, sales value at French fine art auctions increased by 49% to 911 million USD. This might have been a reaction to Brexit-related jitters in the UK. France increased its share of the global market by three percentage points to 7%.

The United States, China, and the United Kingdom together still account for 80% of the global market share for art auctions, even though their market share decreased by 5% year-over-year. Led by France, the total sales value for the rest of the world reached 2.6 billion USD in 2019, an increase of almost 18% from 2018 and the highest amount since 2013.

The number of works for fine art and decorative art sold at auction increased by 29% year-over-year, supported by more than 30% growth in market supply, or lots offered. The sell-through rate for fine and decorative art remained stable at 65%. Despite an increase in both supply and demand for fine art works, the average price decreased by 29% year-over-year, dropping from 59k USD in 2018 to 42k USD in 2019. The decrease in the average price was caused by a decline in sales value in the higher-end market for art. No major estate or collections hit the market in 2019.

Nevertheless, Claude Monet's *Meules* (1891) sold for 110.7 million USD at Sotheby's in May, breaking the artist's pre-2019 record of $84.6 million at auction. Overall sales values of Impressionist and Modern works declined by 19% in 2019, however.

Also in May, Robert Rauschenberg and Jeff Koons broke their respective records at a Christie's: Rauschenberg's silkscreen *Buffalo II* (1964) sold for 88.8 million USD, surpassing its high estimate by almost 19 million USD. Koons' sculpture *Rabbit* (1986) sold for 91 million USD. Sales of Post-War and Contemporary art, which is also the focus of Artnet, decreased slightly by 5% in 2019.

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 2019, Artnet achieved the highest revenue in the Company's history due to the success of Artnet News and surpassed the record of the previous year.

The Group's revenue in the 2019 fiscal year totaled 21,878k USD, a slight increase of 1% as compared to 2018. Revenue missed the Management Board's projection of 23,000k USD to 24,000k USD due to declining revenues in the segments galleries and Auctions. Income from operations decreased by 78% to 197k USD year-over-year (2018: 905k USD) due to increased investments in marketing and also missed the Management Board's forecast of 1,000k USD to 1,500k USD.

Revenue Growth

In 2019, Artnet grew its total revenue by 1% or 262k USD to 21,878k USD, as compared to 2018 (21,615k USD), setting another record. Overall growth was driven by a high demand for advertising space on Artnet News, mostly from luxury brands. Advertising has become the second-largest revenue generator for Artnet behind the Price Database. While Price Database revenue held steady, revenues for Galleries and Auctions decreased. The Galleries segment struggled with continuously challenging market conditions for a crucial client segment. The decrease in Auctions revenue was mostly due to uncertain and difficult conditions in the U.S. auctions market. Furthermore, staff was reduced from 14 specialists at the beginning of 2019 to 9 specialists at the end of the year.

Price Database

The Price Database, Artnet's core segment, is an essential and coveted research tool for art market participants. Revenue in 2019 remained steady at 7,633k USD after a record of 7,664k USD in 2018. The segment did not achieve its expected moderate revenue growth due to a generally difficult market environment. The redesign and improved positioning of the product page in July 2018, including a simplified explanation of its capabilities and an expanded FAQ section, had led to higher conversion rates of visitors to the site and to 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 13 million auction results in 2019, was further highlighted with the publication of the bi-annual Artnet Intelligence Reports —published for the 2019 spring and fall auction seasons. The comprehensive reports of current art market trends are 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.

The data error rate, used to track incorrect data entries, such as the wrong year of an artwork, fell to the lowest level in Artnet's history, thanks to thorough reviews by art historians as well as automated quality controls. The stable demand for our data underlines both the art markets' trust in our brand as well as an unabated desire for price transparency.

Gallery Network

The Gallery Network, Artnet's third-largest segment in terms of revenue, struggled in 2019 after a significant recovery in the previous year. Gallery Network revenue decreased by 7% or 378k USD to 4,998k USD, as compared to 2018 (5,376k USD). The segment did not achieve the anticipated slight increase in revenue because of the continued challenging market environment for small and medium-sized galleries and declining membership figures. Revenue for Auction House Partnerships also fell by 7% or 49k USD to 623k USD. Building on the success of the Gallery Portal, an online content management system which allows galleries to efficiently manage and showcase their inventory, Artnet had redesigned the gallery profile pages in 2018 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, smaller and mid-size galleries—which compose a significant percentage of Artnet's clients—continue to struggle with demanding art fair schedules and high operational costs. This led to an overall decrease in memberships year-over-year of 36 galleries. Strong competition in this particular market challenges Galleries' efforts to retain exiting members and to sign up new galleries. However, due to the efforts of the Client Services Team and improved processes, cancellations have been historically low.

Advertising

Advertising revenue, as predicted, increased by a strong 20% or 878k USD to 5,377k USD (2018: 4,499k USD), primarily driven by the increasing demand of luxury advertisers for ad space on Artnet News. As previously noted, advertising has has become Artnet's second-largest revenue generator after the Price Database. Ad sales to the luxury goods sector grew by 42% year-over-year. News contributed 77% to total advertising revenue. The Artnet Galleries and Price Database segments contributed 17% and 5%, respectively, of total advertising revenue.

Artnet News is the leading 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 quality and 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 2019 included an exclusive story by Artnet News columnist Kenny Schachter about Leonardo da Vinci's painting *Salvator Mundi*: the painting had sold at auction in 2017 for the record price of 450 million USD but its whereabouts remained unknown until Schachter in June broke the news that the painting was on Saudi Arabia's Crown Prince Mohammed bin Salman's superyacht. The story was picked up by major American and international news outlets, which cited Artnet News as the source. Later in the year, Artnet's coverage of Maurizio Cattelan's work *Comedian*, the infamous banana duct-taped to a wall, at Art Basel Miami Beach was similarly widely quoted.

In October, Artnet News launched the new weekly podcast the Art Angle. Hosted by Artnet News Editor-in-Chief Andrew Goldstein, the podcast tackles the biggest stories and trends of the art world in an accessible, engaging format.

Artnet Auctions

Artnet Auctions fee-based revenue decreased by 5% to 3,869k USD as compared to the previous year (2018: 4,075k USD), thereby missing its anticipated revenue target. Management had forecast significant growth for 2018. Artnet Auctions has continuously shifted its strategic focus to higher-quality offerings with attractive pricing to raise the average lot price, the sell-through rate by volume and value, and customer satisfaction—even if consignments have to be turned down. This strategy can temporarily cause lower transaction volumes and a drop in revenue. The quality initiative has already led to an increase in the sell-through rates as the focus on sought-after and high-quality lots increases the likeliness of an artwork selling at auction.

Artnet also restructured the Auctions department in 2019 to increase efficiency. Artnet focused on the popular Prints & Multiples sales as well as Photography while lowering efforts to sell Impressionist works, which come with significantly higher pre-sale requirements and are therefore not a feasible operational model for our platform. In total, we reduced the number of specialists from 14 at the height of 2018 to 9 at the end of 2019. We will expand the team when the right talent becomes available in our best-selling categories.

The number of lots sold in 2019 decreased by 18% to 1,096 (2018: 1,344). The average price of lots sold increased by 5%

to 14,750 USD (2018: 14,100 USD), as strict attention was paid to the high quality of the lots when selecting the works offered.

Despite the general weakness of the market for fine art auctions in 2019, Artnet's quality initiative led to several auction records for particular artists, thereby improving the company's reputation as the leading provider of online-only auctions. In January 2019, the single-artist *WARHOL* sale performed strongly, setting an auction record for a rare trial proof of the pop artist's 1983 screenprint *Orangutan (from Endangered Species)*. The *Contemporary Art* sale in March became the highest-grossing auction for this genre since the launch of the auction platform in 2008, breaking several auction records in the process. Top lots sold well into the six-figure range, among them an untitled wall sculpture by the British-Indian artist Anish Kapoor which sold for 300k USD.

Prints & Multiples, in particular, remained a sought-after collecting category throughout the year. A numbered impression of *Girl with Balloon* (2004) by the street artist Banksy sold for a new world auction record of 96k USD in our *Prints & Multiples Premier Sale* in April. In October, Andy Warhol's screenprint *Apple (from Ads)* (1985) sold for 110k USD, followed by *Superman (from Myths)* (1981), which sold for 150k USD in November. Sales of contemporary paintings, however, struggled in the second half of the year.

Changes in Costs and Results

Gross profit in 2019 increased slightly by 6% or 822k USD to 14,084k USD, as compared to the previous year (13,262k USD), due to a slight increase in revenue and a decrease in cost of sales of 7%. The decrease in the cost of sales resulted primarily from a decrease in personnel in online auctions and network administration.

Sales and marketing expenses increased by 24% or 1,382k USD to 7,084k USD (2018: 5,702k USD). Artnet hired new leadership for the Marketing Team and leveraged high-profile luxury events related to its 30th anniversary to highlight the achievements and role of the company and its founder in driving the digital transformation of the art market. The Group also invested in upcoming re-branding. These initiatives market Artnet to both potential clients in the art world and to luxury brands seeking to advertise in an exclusive and sophisticated environment.

Expenses for product development decreased by 87k or 4% to 1,921 USD, as compared to 2018 (2,008k USD). In 2019, Artnet focused on the development of project FALCON.

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. The development costs for the project, which were simultaneously capitalized as an intangible asset, amounted to 1,289k USD (1,148k EUR) in the financial year 2019.

General and administrative expenses increased by 5% to 4,881k USD, as compared to 2018 (4,647k USD). These costs primarily include the salaries of administrative staff and management compensation of 1,830k USD (2018: 1,905k USD), rent and ancillary rental costs of 1,520k USD (2018: 1,258k USD) which were mainly recognized as depreciation due to the first-time application of IFRS 16, legal and consulting fees, as well as travel expenses.

Operating expenses increased overall by 12% to 13,887k USD (2018: 12,357k USD), primarily due to the investment in Sales and Marketing.

As a result, operating income in 2019 decreased by 78% to 197k USD, as compared to the previous year (2018: 905k USD). The previous year's forecast of an operating income of 1.0 million USD to 1.5 million USD in 2019 was thus missed.

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.

The Contribution Margin II (CM II) for the segments Artnet Price Database and Galleries fell in 2019. For the Artnet Price Database, the CM II decreased by 12% to 4,378k USD as a result of a slight drop in revenue and an increase in personnel and marketing expenses. For Artnet Galleries, the CM II decreased by 18% to 3,038k USD, which was also due to declining revenue and higher marketing expenses.

The DB II for Artnet News decreased to (549)k USD. This decrease resulted from increased expenses for sales and marketing, despite the segment's increasing revenues.

Artnet Auctions generated a CM II of 271k USD, an increase of 204% as compared to the previous year (2018: 36k USD) and thus remains profitable.

Group Profit or Loss

The operating income of 197k USD (2018: 905k USD) is reduced by interest expenses of 122k USD (2018: 1k USD), which are almost exclusively attributable to the interest on lease liabilities recognized for the first time in 2019. These expenses were mainly reported as rental expenses within other operating expenses in 2018.

Other income/expenses include, in particular, foreign currency expenses of 55k USD (2018: 41k USD) as well as the reversal of a liability of 42k USD.

Since, in contrast to the previous year, no adjustment of deferred tax assets was necessary (2018: 216k USD), and no further refund claims arose from minimum tax paid in previous years (2018: 233k USD), only insignificant tax expenses were incurred in 2019.

As a result of the significantly lower operating income, net profit also fell significantly by 1,233k USD to (719)k USD year-over-year.

The Group's result was also positively influenced by foreign currency gains of 23k USD (2018: 104k 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, 2019. Throughout 2019, the average exchange rate was 0.893 USD/EUR, as compared to 0.848 USD/EUR during the 2018 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, 2019, the rate was 0.891 USD/EUR, as compared to 0.873 USD/EUR on December 31, 2018.

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 2019 and 2018, the Group generated approximately 14% of its revenue in euros and approximately 9% in British pounds, respectively.

In 2019, the Group's financial performance in the reporting currency of euro was significantly influenced by exchange rate effects due to the depreciation of the euro against the US dollar. In euros, revenues increased by 7% to 19,542k EUR (2018: 18,322 k EUR). Gross profit of sales, when reported in euros, increased by 12% or 1,339k EUR to 12,581k EUR. When stated in US dollars, it rose by 6% or 822k USD to 14,084k 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 176k EUR, as compared to an operating profit of 767k EUR in the previous year. In 2019, the net loss in euros amounted to (641) EUR after a net profit of 1,044k EUR in 2018.

Financial Position

In 2019, operating cash flow increased by 45% to 1,816k USD despite the significantly lower net profit (2018: 1,254k USD). The increase is due in particular to the first-time application of IFRS 16, according to which the lease payments for the New York office and the Berlin office (from September 2019) must now be shown in the cash flow from financing activities as repayment of lease liabilities and interest payments.

Cash outflow from investing activities amounted to 1,365k USD in 2019, a decrease of 14% as compared to the previous year (2018: 1,580k USD). The payments for intangible assets relate almost exclusively to FALCON.

The 2019 cash outflow from financing activities increased to 891k USD, as compared to (26k) USD in 2018. This increase is due to the lease accounting changes per IFRS 16. A loan of 200k USD was taken out in December 2019 following unusually late payments by clients to ensure financial stability in case of further delays.

Cash and cash equivalents decreased by approximately 44% or 417k USD to 539k USD as of December 31, 2019 (December 31, 2018: 957k USD), mainly due to delayed payments.

In euros, the changes in cash flow from operating, investing, and financing activities vary from US dollars. Because of the decrease in the value of both the euro and British pound against the US dollar from December 31, 2018 to December 31, 2019, cash and cash equivalents increased by 20k USD. In euros, the positive currency effect amounts to 82k EUR since the holdings in US dollars depreciated. Therefore, the liquidity portfolio of the Group decreased by 42% to 480k EUR as of December 31, 2019 (December 31, 2018: 835k 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, 2019, the liquidity per share totaled 0.10 USD (0.09 EUR) based on an average of 5,552,986 outstanding shares, as compared to 0.17 USD (0.15 EUR) on December 31, 2018.

Financial Status

Consolidated total assets amounted to 13,259k USD on December 31, 2019, as compared to 8,700k USD on December 31, 2018, representing an increase of 52%. This increase is mainly due to the lease accounting changes per IFRS 16 as well as the increase in intangible assets for the further capitalization of development costs for the project FALCON.

Accounts receivable increased by 323k USD to 2,506k USD following higher receivables and assets from advertising contracts.

The Group's non-current assets are primarily held in US dollars. Fixed assets, which are comprised of intangible and tangible assets, increased by 4,423k USD to 7,403k USD. This increase is mainly due to the lease accounting changes per IFRS 16 and the capitalization of intangible assets in the amount of 1,289k USD (2018: 1,363k USD) relating to the upgrade of our technology infrastructure with the project FALCON.

Total current liabilities and provisions increased by 1,880k USD to 6,937k USD (2018: 5,057k USD). This increase is mainly attributable to the leasing changes per IFRS 16 as well as an increase in accounts payable.

Following an increase in accounts receivable, deferred revenue increased from 2,021k USD as of December 31, 2018 to 2,151k USD as of December 31, 2019.

Long-term liabilities in the reporting year increased to 2,736k USD as of December 31, 2019. This increase is mainly due to the leasing changes per IFRS 16 as well as to the loan.

The Group's consolidated equity increased to 3,586k USD as of December 31, 2019 (December 31, 2018: 3,371k USD). This is due to the fact that the "deferred rent incentive" of 192k USD reported in the previous year was offset against equity.

The Price Database is an intangible asset that has been developed over more than 30 years by the gathering of auction information. Although it cannot be recognized as an asset on the balance sheet due to accounting rules, it represents a crucial part of the business and is a secret reserve. If it could be recognized at fair value, the assets and thus, the equity would increase significantly.

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

Artnet was exposed to two opposing art market trends in 2019. Overall, the market environment became more challenging due to declining auction sales in Artnet's key markets. At the same time, public interest in art increased.

Sales at art auctions declined by 11% worldwide. In the United States, the largest art market and also the most critical market for Artnet, sales were around one-fifth lower than in the previous year. This affected Artnet's revenue negatively since Artnet cannot wholly escape the general market environment. This weaker global market hurt Artnet Auctions' revenue and led to stagnating, albeit still high, revenue for the Price Database. The

Galleries segment was additionally burdened by the challenges facing small and medium-sized galleries, including the expensive participation in art fairs, fierce competition, and generally high operating costs. In light of the increasingly challenging market environment, Management is still satisfied with the performance of the three segments despite their missed revenue forecasts—especially since Artnet Auctions has become significantly more efficient due to reorganization.

The second, positive trend of 2019 was the visibly increased public interest in art. Art is a regular topic in the media and art fairs are becoming increasingly popular, and is more present in public than ever before. Artnet has benefited from this interest as it broadens the readership of Artnet News. By satisfying the growing interest with our exclusive coverage, we in turn generate interest and awareness in the company. As a result, Artnet is generating more revenue from ad sales than ever before. The strategic decision to launch a news site for the art market in 2014 has been, therefore, a great success. Artnet News has ensured increasing revenue and also a significant broadening of the company's customer base and revenue sources.

Equity improved because the "deferred rent incentive" reported in the previous year was offset against it.

Earnings and liquidity also fell short of expectations, as the overall revenue goals were missed and the urgent realignment of marketing, as well as the crucial FALCON project, did not allow any delay. With FALCON, the foundation for the future automation of Artnet's production process has been in place since 2019. A faster completion is not possible as the project is financed from the company's cash flow. Management is, therefore, satisfied with the current progress. Despite cost savings and a conservative financial plan, results will be impacted by the coronavirus pandemic in the current financial year.

Non-Financial Performance Indicators

Employees

As of December 31, 2019, the Group employed 122 full-time staff members (December 31, 2018: 131). Additionally, two part-time employees worked for the Group in 2019, as compared to three in 2018. In Sales and other departments, the Group employed 4 freelancers, as compared to 3 in the previous year.

Personnel expenses (excluding social insurance contributions) totaled 13,337k USD, as compared to 13,395k in 2018. While personnel costs increased in the areas of Administration, Sales, and Marketing, they decreased in cost of sales 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 cancellations 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 cancellations and new memberships sold are monitored and recorded on a monthly basis. In 2019, cancellations decreased by approximately 27%, representing 66 fewer cancelations as compared to 2018. This is a result of improved client service and processes, leading to better retention rates.

The number of new contracts remained unchanged at 149 (2018: 149) and the overall number of gallery memberships decreased by 36 to 1,082 at the end of 2019, whereas the number of gallery memberships fell by 98 in the previous year.

For the Artnet Price Database segment, most indicators measured continue to show positive results as compared to 2018. The number of subscribers, searches, and lots added are monitored on a monthly basis. In 2019, the average number of monthly subscribers increased by 3%, while the number of searches decreased by 2%, as compared to 2018. In 2019, the number of auction houses whose lots were newly added increased by 9%, increasing the coverage and precision of the database.

The number of auction results added to the database increased strongly by 22%, partly following improvements and very efficient editing. On average, auctions were added to the Price Database two days earlier as compared to the previous year. The length of time needed to update the database with new results after an auction was cut to three days in 2019. Thus, data entry in each of these cases has improved by 14%. In 2019, the Price Database contained more than 13.5 million auction results for the first time.

In 2018, the strategic decision was made to further increase the quality of lots offered on Artnet Auctions. This approach was continued in 2019 resulting in an increase of the average transaction value by 5% to 14.8k USD over 2018. Compared to the previous year, transactions above 50k USD increased by 13% and transactions above 75k USD increased by 7%. This is a further indication that buyers and sellers are increasingly willing to trade high-value works of art online. Trust in the online market is growing despite a generally weaker trend in the art market. In 2019, the average price of lots sold at auctions worldwide fell by 29% year-on-year to 29k USD (2018: 41k USD).

Due to the strict quality criteria for the selection of the offered lots, fewer works were offered overall, and the number of lots sold was fell by 18% to 1,096 (2018: 1,344). The sell-through rate increased by 2% both by volume and value in the past year, confirming the quality of the lots offered and increased efficiency.

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 20% more visitors to Artnet, as compared to the previous year. The number of visitors increased from 3 million average per month in 2018 to 3.6 million in 2019. In 2018, the number of visitors had increased by 18%.

3. Disclosure of Takeover Provisions

Composition of Capital Stock

Artnet AG's fully paid-in capital stock, as of December 31, 2019, 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, 2019, 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 Rüdiger K. Weng, at 10.21%, as of December 31, 2019.

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. The authorized capital expired in 2019.

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.

In 2019, 193,907 stock options granted in 2009 expired, 205,000 stock options remain.

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	**2018**	**2019**		
	Granted	**Granted**	**(Min)**	**(Max)**
Fixed Basic Remuneration	317,863	368,471	368,471	368,471
Remuneration in Kind	10,824	5,400	5,400	5,400
Total	**328,687**	**373,871**	**373,871**	**373,871**
Short-Term Remuneration	31,786	36,847	–	368,471
Benefits	–	–	–	–
Total Remuneration	**360,473**	**410,718**	**373,871**	**736,942**

Paid, CEO	Jacob Pabst	
EUR	**2018**	**2019**
Fixed Basic Remuneration	317,863	368,471
Remuneration in Kind	10,824	5,400
Total	**328,687**	**373,871**
Short-Term Remuneration	33,270	31,786
Benefits	–	–
Total Remuneration	**361,957**	**405,657**

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 March 18, 2019, to a two-year term from July 1, 2019 to July 1, 2021. Besides the fixed basic remuneration, the terms of the contracts remain the same.

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

Fixed basic remuneration: In the 2019 fiscal year, the fixed cash remuneration of the Management Board member, Jacob Pabst, totaled 368.5k EUR (412.5k USD). In the previous year, the fixed basic remuneration totaled to 335k EUR (375k USD) until June 30, 2019. As of July 1, 2019, the fixed basic remuneration totals to 450k 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 2019, the Supervisory Board has set a variable remuneration component of 37k EUR (41k USD). Mr. Pabst has decided to waive the variable remuneration and to wait for the economic development in the course of the coronavirus pandemic.

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 37.5k 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 and adapt to a constantly changing landscape, Artnet permanently observes internal and external risks and opportunities, which are outlined in the following Risk and Opportunity Report, if relevant.

6.1 Risk Report

Risk Management

The Group has 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 versus actual comparisons as part of monthly reporting, and provides comparisons with the previous year
- Information technology infrastructure, which ensures and monitors the 24/7 availability and functionality of the website, products and services, and all office communication

- Compliance, which monitors internal and external legal risks, as well as legislation changes
- Project management, which monitors the development and progress of the 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 and key performance indicators for all products. 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 includes 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 imponderable 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., information technology 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 operational, legal, compliance, 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.

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 had begun in 2017 and continued into 2018, came to an end in 2019.

Globally, the total annual auction sales value (for fine art and decorative art) was 17.8 billion USD, a decrease of 8% as compared to 2018.

For fine art sales, the decline was particularly strong in the United States, the biggest art market, and the United Kingdom, the third largest market, where the volume decreased by 19% in both countries. China and Germany declined by 5% each, as compared to 2018.

Well-funded competitors have intensified competition in recent years and put pressure on the Group's market share.

Downside risks remain, including geopolitical tensions, fraught relations between the United States and its trading partners, and the uncertain long-term consequences of the global coronavirus pandemic. It has become clear, however, that the outbreak of the coronavirus pandemic will have a substantial and adverse effect on the global economy and the art market in 2020. Travel restrictions and health concerns already caused the cancelation or postponement of major art events, such as auctions and gallery openings, in the spring of 2020.

The United Kingdom has left the European Union on January 31, 2020, and entered an 11-month transition period including negotiations for a new free trade agreement, which brings additional uncertainties. The U.K. is the third-largest art market in the world. Potentially negative consequences of Brexit, such as higher costs for cross-border transactions or currency fluctuations, could also affect the art market and hence Artnet.

The art market generally reacts to major geopolitical and economic trends in industrialized countries, which in turn have an impact on financial markets. An economic slowdown or a recession, accompanied by high price volatility in financial markets could result in decreasing consumer demand—which could also weaken the interest in art. In the event of declining art sales, fewer Artnet price database subscriptions might be sold. Members of the Gallery Network, who already suffer from high operating costs, could face even greater financial difficulties. The ban on meetings and business closures caused by the coronavirus pandemic could have a negative impact as well. Falling prices for artworks could also lead to lower commissions for Artnet Auctions. Finally, global luxury brands and business operating in the art world might slash their advertising budgets in a recession which could potentially lead to lower revenues for Artnet News.

Operating Risks

Technology System Infrastructure

Interruptions to the website's functions can reduce the Group's revenue and profit short-term, and could impact future revenue and earnings. Frequent or sustained interruptions to service could cause users to consider the Group's systems as unreliable, thus having a negative impact on the Group's reputation and revenue. Any 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 and maintenance 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 rare and difficult to predict events. For protection, the Group's web servers are located in an extremely secure off-site facility. Additionally, cloud-based data services are increasingly used and introduced as part of project FALCON, 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, as well as opening opportunities for additional revenue streams. This is supposed to curtail risks of falling behind market standards for elements such as security and user experience. The most important step taken for this development is project FALCON, which will allow for both, faster development, adjustment to market trends and build state of the art technology ahead of competition.

The ultimate goal of FALCON is the complete automation of Artnet's production process. Should the project's completion take longer than anticipated, it could slow down the launch of new products and tie up the capacities of the development team. This could also lead to increased costs and to a loss of potential revenues.

There is always risk that product innovation and further product development might not be immediately accepted by market participants, 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 from competing startups in the market, some of which are directly competing with one or more of our product segments with new technology.

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 automatically as well as manually 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 campaigns. Artnet monitors the number of visitors and revenues generated through the website and compares these with the corresponding advertising and marketing expenses to evaluate the success of search engine optimization, as well as advertising and marketing campaigns.

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. To further protect Artnet, agreements with auction houses ensure the rights of use images from auction houses. In response to previous lawsuits Artnet takes legal action and all necessary contractual steps to avoid future lawsuits. New lawsuits cannot be ruled out. This could impact 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, there are globally new legal initiative that make further demands on storage and 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 as fully as possible, 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.

Tax Risks

Due to its international positioning, Artnet operates in many tax jurisdictions (in particular the United States, the United Kingdom, and Germany), each with different requirements. A violation of tax laws (both income and transaction taxes) could have significant negative consequences for Artnet.

In addition, Artnet is exposed to possible risks from changes in tax legislation for e-commerce. In 2018, the U.S. Supreme Court ruled in the case of *South Dakota v. Wayfair* that U.S. states may levy sales tax on products even if the seller has no physical presence in the taxing state, as in the case of an order placed via the Internet. This regulation is continuously evolving as more states join, and new metrics for levying sales taxes are established.

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, in particular euros and British pound. As exchange rates are subject to fluctuation, revenue and operating expenses may in rare cases differ substantially from expectations. The Group usually does not engage in exchange rate hedging, reason being that 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 exposure to exchange rate risk as limited therefore.

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 the Group has no concentration of default risk for financial assets. Nevertheless, a global economic downturn could negatively influence the spending power and even solvency of the Group's customers, leading to an increase in the average credit period, or leading to customer defaulting. 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, 2019, cash and cash equivalents in US dollars decreased by 44% to 539k USD, as compared to the previous year. In euros, cash and cash equivalents decreased by 42% to 480k EUR.

The interest rate risks can be considered insignificant since the Group's interest-bearing debt is only in the form of leasing, which have fixed interest payments.

Other Risks

Key Employees

The market for skilled and motivated managers is highly competitive in the art world. Given 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. Having well-trained and highly skilled middle management, little disruption is expected from this.

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 opportunities for the Group even after thirty years in existence. The 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. Additionally, the millennial generation is breaking away from traditional ways of consuming information and changing their purchase habits. As this generation accumulates wealth, it is both inclined to buy art and use online tools to do so.

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. Many auction houses had to cancel sales in the wake of the corona virus pandemic. This could lead to more sellers and buyers using Artnet Auctions, as online auctions can still be conducted.

Transaction Speeds and Liquidity

The online-only model Artnet Auctions offers liberates art 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. This makes art as an asset class more liquid and tradable than ever, thereby reducing barriers of entry in terms of confidence to invest. Artnet Auctions can conduct online auctions despite the corona crisis. Galleries can present their artists and works online in the Artnet Gallery Network. Artnet thus offers these businesses essential alternatives to continue transactions even during the coronavirus pandemic. The company could convince new clients and users of the advantages online transactions.

Market Opportunities

The international art market has traditionally been linked to the economies of industrialized countries. Economic growth in the developed world, in particular the US, the world's largest art market and 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. The 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 to offer a comprehensive studies of current trends in the art market. The biannual Intelligence Report, written by Artnet News writers and Price Database analysts, is an example of the high-quality content and Artnet's unique ability to produce research impacting the entire market.

There continues to be more opportunities to leverage and highlight Artnet's broad product portfolio, create new products, and explore additional revenue streams.

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 and clients.

Artnet is at the forefront of the online art market. Over the course of three decades, the Company has established a reputation for quality, reliability, and influence on the art market. Brands and institutions both within and outside the industry are attracted to partnering with Artnet which increases their brand awareness and grows their client base. An example of this is luxury brands running campaigns on Artnet's website and newsletters.

The coronavirus pandemic sheds light on the advantages of Artnet suite of products and could lead to an increasing number of new customers.

Advertising on Artnet websites and social media channels

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 rebuilding its technology infrastructure with project FALCON. FALCON is the most significant undertaking since the founding of the company in 1989. Its ultimate goal is the complete automation of Artnet's production and development processes—leading to reduced maintenance costs for existing products and improved performance of the development team. FALCON will ensure that Artnet has the right technology foundation to successfully compete and grow in a rapidly changing business environment. It will make Artnet faster, more flexible, and more efficient. Operational and personnel costs will be lower, productivity will increase, and new products will be developed and launched more quickly.

Artnet, like a lot of other older tech businesses, needs to replace and update its proprietary software. With FALCON, Artnet is also moving to a modern manufacturing process, becoming a kind of software factory. FALCON will allow Artnet to produce features for its website similar to the way cars are built in a state-of-the-art factory. Increased consistency will lower the cost of training and maintenance. Reusable code components will lower the risk of design flaws and defects, thereby ensuring quality. The streamlining and automating of product development increases productivity and reduces personnel costs as well. Also, Artnet will be able to buy specialized software from external vendors much more cheaply than developing it in-house.

The Company's success depends, to a large extent, on its 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 develop the platform further. Of course, if Artnet can progress faster than currently expected, it would be able to implement product improvements more quickly, which could have a positive effect on our revenue and earnings.

Statement from the Management Board Concerning Risks and Opportunities

As compared to 2018, significant changes have been added to Risks and Opportunities. Artnet has prevailed in an overall challenging climate amid an intensely competitive.

In a difficult, changing market environment with intense competition, Artnet performed well overall.

The coronavirus pandemic causes an economic crisis and considerable restrictions on the art market, which have negative consequences for Artnet. Nevertheless, the important role that the internet and e-commerce play during the current standstill could lead to fundamental changes in consumer behavior and Artnet could benefit from its position as market leader in the online art market segment. The online news service Artnet News plays an important role for the art industry, especially in times of crisis. Artnet Auctions is the only provider of pure online auctions that enables transactions to be maintained while conventional auctions have been canceled.

After the end of the crisis additional opportunities may arise in the face of growing interest in art, a growing number of wealthy private clients, growing wealth of the millennial generation and growing acceptance of online transactions. The FALCON project will help to accelerate the pace of development faster than ever before, thus offering opportunities for faster growth and lower costs.

7. Subsequent Report

In May 2020, the group received a loan from the US Small Business Administration as part of the Paycheck Protection Program in the amount of USD 1,667k USD. The loan does not have to be repaid or has only to be repaid partially if certain conditions are met.

In the period from the balance sheet date of December 31, 2019 to June 24, 2020, the global spread of the new coronavirus and the subsequent economic downturn had a significant impact on the Group's net assets, financial position and results of operations, which caused no significant risk to the company. Additional explanations can be found in the economic report, the risk and opportunity report and the outlook as well as in the notes to the consolidated financial statements.

Before the consolidated financial statements were published, litigation risks were successfully minimized by settling a legal dispute. The settlement of the legal dispute will allow for a provision of around 200k EUR to be reversed in 2020. With the dispute solved, Artnet is able to further focus on the development of the individual business segments.

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 light of the global spread of the coronavirus and the drastic measures taken to contain infections, the International Monetary Fund (IMF) expects global economic growth to decline by 3% in 2020. Factories and shops have been closed due to health hazards. Consumer and business confidence in economic growth is waning, unemployment is rising, and stock market prices plummeted along with sharp fluctuations in the face of a looming downturn.

Lockdowns have also severely restricted the global art market. Major art fairs and auctions were canceled due to the threat to public health.

In 2020, Artnet is likely to maintain its leading position in a highly competitive market. However, Management expects a decline in sales due to the challenging economic environment.

Competitive advantages regarding data, customers and web traffic will continue to support Artnet. Price Database data remains in demand for the valuation of artworks even in times of crisis. Artnet Auctions' fee-based revenue could increase as online auctions became a compelling alternative to – canceled – traditional auctions. However, the economic downturn is likely to cause an overall decline in Advertising revenues as well as falling membership revenue in the Gallery Network.

Artnet is renewing its IT infrastructure with project FALCON. The project aims to fully automate the production process, which will reduce the maintenance cost for existing products and improve the performance of the development team. Visitors to the website will see changes and improvements in 2020.

Artnet Auctions' fee-based revenue fell slightly in 2019, following a stable development in the previous year, due to the general weakness of the art market. Still, Auctions continues to be one of Artnet's most important sources of revenue, accounting for almost one-fifth of total revenue. After initial hesitation, the art market has adopted online-only auctions as a fast and cost-effective way to buy and sell fine art. During the crisis, this acceptance could grow further as online auctions are likely to become an essential solution for the market. Top lots at Artnet Auctions regularly sell for six-figure dollar amounts. Auctions will play an even more critical role in the art world when the auctioning of higher-priced works of art over the Internet becomes more widespread. With this in mind, Artnet Auctions has placed a strategic focus on high-quality artworks at attractive prices to increase average lot prices, sell-through rates and customer satisfaction. Despite continuously offering online auctions, Management anticipates that Auctions revenue in 2020 will grow slightly compared to the previous year due to the economic crisis.

Artnet News has become the leading online platform for news and commentary on the art market. The editorial focus on quality and original reporting resulted in increasing visitors and growing advertising revenue. New products such as the biannual Intelligence Reports leverage Artnet's data and analytical resources. The success and high brand recognition of Artnet News has a positive effect on all Artnet products. Management expects this positive trend to continue, but still forecasts a significant decline in Artnet News revenue in 2020, as advertisers' budgets will likely shrink during the economic crisis.

Price Database revenue remained constant in 2019, after the segment had recorded its highest subscriber growth since 2015 in the year prior. Management expects revenue growth for the Price Database to remain unchanged in 2020. Even though fewer auctions are taking place, the data in the Price Database remains essential for the valuation of artworks.

After the turnaround of 2018, Gallery Network revenue declined in 2019 due to a challenging market and falling membership numbers. Small and mid-sized galleries, a critical customer base for Artnet, struggle with persistently high operating costs. The crisis and its forced closures exacerbated these difficulties. On the other hand, membership in the Artnet Gallery Network offers galleries additional opportunities to showcase their artists and artworks to a global online audience. Management initially expects membership numbers to decline further in 2020, leading to a moderate decline in revenues for the Galleries segment.

Based on the expectations for the individual segments, Management predicts a decline in total revenues in 2020 to a range of 20.0 million USD to USD 21.0 million USD (18.2 million EUR to 19.1 million EUR at an estimated exchange rate of 1.10 EUR/USD). Management expects the income from operations to decline to -0.5 million USD to -1.0 million USD (-0.5 million EUR to -0.9 million EUR). Due to the uncertain economic outlook and the coronavirus pandemic, Management considers this conservative forecast to be appropriate at this point. A significantly more positive outcome is possible. This possibility was confirmed by much better-than-expected results in the second quarter of 2020. Artnet Auctions reported its highest revenue in May since the segment was founded, interest in Gallery Network Memberships increased, and Artnet experienced strong growth in visitor numbers.

Due to the loan granted in 2020, cash and cash equivalents should increase significantly compared to the status on December 31, 2019, despite the settlement of the legal dispute.

Berlin, June 24, 2020

Jacob Pabst
CEO, Artnet AG

Consolidated Financial Statements as of December 31, 2019

artnet AG Consolidated Balance Sheet

As of December 31, 2019

	Notes No.	12/31/2019 USD	12/31/2018 USD	12/31/2019 EUR	12/31/2018 EUR
Assets					
Current Assets					
Cash and Cash Equivalents	3	539,319	956,669	480,371	835,076
Trade Receivables	4	2,506,307	2,182,844	2,232,368	1,905,405
Other Current Assets	5	970,604	634,251	864,517	553,638
Total Current Assets		**4,016,230**	**3,773,764**	**3,577,256**	**3,294,119**
Non-Current Assets					
Property, Plant, and Equipment	6	3,887,758	427,300	3,462,826	372,990
Intangible Assets	7	3,514,797	2,552,196	3,130,630	2,227,812
Other Non-Current Assets	5	423,116	529,281	376,869	462,010
Deferred Tax Assets	8	1,417,544	1,417,544	1,262,606	1,237,374
Total Non-Current Assets		**9,243,215**	**4,926,321**	**8,232,931**	**4,300,186**
Total Assets		**13,259,445**	**8,700,085**	**11,810,187**	**7,594,305**
Equity and Liabilities					
Current Liabilities					
Accounts Payable	9	1,034,505	481,654	921,434	420,436
Accrued Expenses and Other Liabilities	10	1,454,317	1,425,334	1,295,360	1,244,174
Provisions	11	1,117,054	1,082,673	994,960	945,065
Short-Term Liabilities from Finance Leases	12	1,180,467	46,352	1,051,442	40,461
Contract Liabilities	14	2,150,531	2,021,175	1,915,478	1,764,284
Total Current Liabilities		**6,936,874**	**5,057,188**	**6,178,674**	**4,414,420**
Long-Term Liabilities					
Office Rent Amortization	13	–	192,772	–	168,271
Long-Term Liabilities from Finance Leases	12	2,536,257	79,115	2,259,044	69,059
Loans	13	200,000	–	178,140	–
Total Long-Term Liabilities		**2,736,257**	**271,887**	**2,437,184**	**237,330**
Total Liabilities		**9,673,131**	**5,329,075**	**8,615,858**	**4,651,750**
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		(55,144,569)	(56,569,321)	(53,736,321)	(54,948,860)
Current Net Profit		(719)	1,231,980	(641)	1,044,268
Foreign Currency Translation		635,359	612,108	548,926	464,782
Total Shareholders' Equity		**3,586,314**	**3,371,010**	**3,194,329**	**2,942,555**
Total Liabilities and Shareholders' Equity		**13,259,445**	**8,700,085**	**11,810,187**	**7,594,305**

artnet AG Consolidated Income Statement

For the Fiscal Year from January 1 to December 31, 2019

	Notes No.	2019 USD	2018 USD	2019 EUR	2018 EUR
Revenue					
Gallery Network		4,998,033	5,376,475	4,464,559	4,557,285
Price Database		7,633,065	7,664,201	6,818,337	6,496,441
Advertising		5,377,404	4,499,255	4,803,438	3,813,723
Artnet Auctions		3,869,127	4,075,399	3,456,149	3,454,448
Total Revenue	**24**	**21,877,629**	**21,615,330**	**19,542,483**	**18,321,897**
Cost of Sales		7,793,995	8,353,714	6,962,090	7,080,896
Gross Profit		**14,083,634**	**13,261,616**	**12,580,393**	**11,241,001**
Operating Expenses					
Sales and Marketing		7,084,317	5,702,188	6,328,160	4,833,371
General and Administrative		4,880,895	4,646,858	4,359,924	3,938,836
Product Development		1,921,371	2,008,003	1,716,290	1,702,052
Total Operating Expenses		**13,886,583**	**12,357,049**	**12,404,374**	**10,474,259**
Operating Income		**197,051**	**904,567**	**176,019**	**766,742**
Interest Expenses	22	121,703	1,406	108,713	1,192
Other Income/(Expenses)	22	(70,731)	(84,285)	(63,181)	(71,443)
Earnings Before Taxes		**4,617**	**818,876**	**4,125**	**694,107**
Income Taxes	8	(5,336)	196,982	(4,766)	166,969
Deferred Tax Benefit/(Expense)		–	216,122	–	183,192
Net Profit		**(719)**	**1,231,980**	**(641)**	**1,044,268**
Other Comprehensive Income					
OCI Recycled: Differences from Foreign Currency Translation		23,251	104,427	84,144	202,650
Total Comprehensive Income		**22,532**	**1,336,407**	**83,503**	**1,246,918**
Result per Share					
Basic and Diluted	21	0.00	0.22	0.00	0.22

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

For the Fiscal Year from January 1 to December 31, 2019

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
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**
Net Income	–	–	–	–	(719)	23,251	22,532
Right of Use Asset	–	–	–	–	192,772	–	192,772
Balance as of 12/31/2019	**5,631,067**	**5,941,512**	**(269,241)**	**52,423,972**	**(55,145,288)**	**635,359**	**3,586,314**

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

For the Fiscal Year from January 1 to December 31, 2019

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
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**
Net Income	–	–	–	–	(641)	84,144	83,503
Right of Use Asset	–	–	–	–	168,271	–	168,271
Balance as of 12/31/2019	**5,631,067**	**5,631,067**	**(264,425)**	**51,015,723**	**(53,736,962)**	**548,926**	**3,194,329**

artnet AG Consolidated Statement of Cash Flows

For the Fiscal Year/Period from January 1 to December 31, 2019

	Notes No.	2019 USD	2018 USD adjusted	2019 EUR	2018 EUR adjusted
Cash Flow from Operating Activities					
Net Profit		**(719)**	**1,231,980**	**(641)**	**1,044,268**
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities					
Depreciation and Amortization	6,7,22	1,501,445	582,147	1,341,186	493,448
Impairments/Write-Offs for Receivables	4	561,678	405,301	500,287	343,547
Changes in Deferred Tax Assets	8	–	(216,122)	(25,232)	(183,192)
Other Non-Cash Transactions		35,537	218,270	50,928	228,469
Changes in Operating Assets and Liabilities					
Trade Receivables	4	(885,141)	(1,129,952)	(827,250)	(957,785)
Other Current Assets	5	(336,353)	(108,841)	(310,879)	(92,257)
Security Deposits	5	106,165	(90,953)	85,141	(77,095)
Accounts Payable	9	552,852	55,307	500,998	46,881
Accrued Expenses and Tax Liabilities	10	28,983	111,363	51,186	94,395
Deferred Revenue	14	129,356	195,074	151,194	165,351
Interest Portion of Lease Liability		121,703	1,406	108,713	1,192
Total Adjustments		**1,816,225**	**22,999**	**1,626,272**	**62,954**
Cash Flow Provided by Operating Activities		**1,815,506**	**1,254,979**	**1,625,631**	**1,107,222**
Cash Flow from Investing Activities					
Purchase of Property and Equipment	6,12	(42,031)	(141,181)	(37,062)	(123,237)
Purchase and Development of Intangible Assets	7,12	(1,323,378)	(1,438,991)	(1,225,087)	(1,256,095)
Payment for Acquisition of Consolidated Companies		–	–	–	–
Cash Flow Used in Investing Activities		**(1,365,408)**	**(1,580,173)**	**(1,262,148)**	**(1,379,332)**
Cash Flow from Financing Activities					
Repayment of Finance Leases	12	(968,999)	(26,418)	(871,759)	(22,393)
Loans	13	200,000	–	178,140	–
Interest for Leases	22	(121,703)	(1,406)	(108,713)	(1,192)
Cash Flow Used in Financing Activities		**(890,702)**	**(27,824)**	**(802,332)**	**(23,585)**
Effects of Exchange Rate Changes on Cash		**23,251**	**(17,828)**	**84,144**	**24,421**
Changes in Cash and Cash Equivalents		**(417,335)**	**(370,845)**	**(354,705)**	**(271,274)**
Cash and Cash Equivalents—Start of Year	3	**956,670**	**1,327,514**	**835,076**	**1,106,350**
Cash and Cash Equivalents—End of Year	3	**539,318**	**956,670**	**480,371**	**835,076**
Supplemental Disclosures of Cash Flow					
Income Tax Receipts/(Payments)	8	(8,188)	(8,995)	(7,314)	(7,624)
Interest Payments	22	(123,703)	(1,406)	(108,713)	(1,192)
Interest Receipts	22	–	–	–	–

Notes to the Consolidated Financial Statements 2019

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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 London based Artnet UK Ltd. The former subsidiary Jay Art GmbH, Berlin, was liquidated and deleted from the commercial register on May 14, 2020Artnet 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, 2019, 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 June 24, 2020.

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. The reporting currency is the euro. 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 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, 2019. The principal accounting policies adopted are set out below.

The consolidated financial statements as of December 31, 2019 have been prepared under the assumption that the Company will continue operations, as the Company assumes that the due payment obligations in 2020 can be fulfilled. The group expects no significant risks resulting from the coronavirus crisis.

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, 2019 through December 31, 2019. 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 2019 and 2018, 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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Current Rate Year End	0.8907	0.8729	0.7537	0.7837
Average Rate for the Year	0.8933	0.8476	0.7837	0.7502

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 2019 fiscal year, did not have any material impact on the Company's consolidated financial statements, with the exception of IFRS 16.

New Features and Changes in Accounting		
New Standards or Interpretations	**Coming into Effect**	**Date of EU Endorsement**
IFRS 16: Leases	1/1/2019	10/31/2017
IFRIC 23: Uncertainty over Income Tax Treatments	1/1/2019	10/23/2018
Amendments of Standards	**Coming into Effect**	**Date of EU Endorsement**
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	2/8/2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1/1/2019	3/13/2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1/1/2019	3/14/2019

IFRS 16 "Leases"

The previous standard on leases IAS 17 and the associated interpretations are replaced by IFRS 16 "Leases". The objective of IFRS 16 is to establish the principles that are useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The Group elected to adopt using the modified retrospective method at the beginning of the period of adoption, January 1, 2019, through the recognition of a lease liability and corresponding right of use asset. The comparative information is therefore not adjusted. The Group makes use of the following reliefs:

- The previous classification as a lease in accordance with IAS 17 and IFRIC 4 will continue unchanged.
- Initial direct costs are not taken into account in the assessment of the right of use.
- For short-term leases with a term of less than 12 months, lease payments are recognized on a straight-line basis over the term of the lease.
- In the case of leases for assets whose acquisition cost (replacement value) is less than 5,000 USD, the lease payments are recognized on a straight-line basis over the term of the lease

Additional details are included in Note 12 of the consolidated financial statement.

The following reconciliation to the opening balance for the lease liabilities as of January 1, 2019 only includes the lease for Artnet Corp and is based upon the finance lease obligations as of December 31, 2018.

	In k USD	In k EUR
Operating lease obligation at 12/31/2018	4,592	4,008
Minimum lease payments (notional amount) on finance lease liabilities at at 12/31/2018	129	113
Relief option for short-term leases	(45)	(39)
Gross lease liabilities at 1/1/2019	4,677	4,082
Discounting	(298)	(260)
Lease liabilities at 1/1/2019	4,379	3,822
Present value of finance lease liabilities at 12/31/2018	(125)	(109)
Additional lease liability as a result of the initial application of IFRS 16 as at 1/1/2019	4,254	3,713

Artnet has capitalized a right of use asset for the New York office equaling the amount of the lease obligation of 3,713k EUR. In addition, the "Office Rent Amortization" with a carrying amount of 168k EUR as of January 1, 2019 was released against Accumulated Deficit.

In the course of the first-time adoption of IFRS 16, Artnet decided to report interest payments in the cash flow from financing activities in order to provide more relevant information. Consequently, interest paid in the previous year of EUR 1,192 EUR (1,406 USD) has been reclassified retrospectively. Additionally, the first-time application of IFRS 16 has no significant impact, especially as the amortization of the rights of use is shown in the same item as the previous rental expenses.

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 17: Insurance Contracts	1/1/2021	Open
Amendments of Standards	**Issued**	**Date of EU Endorsement (Anticipated)**
Amendment to IFRS 3: Definition of a Business	1/1/2020	Q1 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1/1/2020	11/29/2019
Amendments to References to Conceptual Framework in IFRS Standards	1/1/2020	11/29/2019
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	1/1/2020	1/15/2020
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	Open	Open

The 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 or right of use assets under leases is eliminated from the cash flow statement, as these investments are non-cash expenses. Subsequent repayments or interest payments of 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:

	12/31/2019 k EUR	12/31/2018 k EUR
Gross Accounts Receivable	2,189	1,765
Gross Contract Assets	760	595
Subtotal	2,949	2,360
Less: Allowance for Value Adjustment Accounts Receivable	(717)	(455)
Receivables After Impairment	**2,232**	**1,905**

Allowance for value adjustment were exclusively recorded as of December 31, 2019, and December 31, 2018, respectively, for accounts receivable, as well as contract assets. Accordingly, only the 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. For other financial assets, in particular for cash and cash equivalents, it was not necessary to recognize loss allowances.

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 and international 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	12/31/2019 k EUR	12/31/2018 k EUR
Overdue But Not Impaired Receivables					
Between 0 and 60 Days	0%	1,795	0	1,795	1,608
Carrying Amounts of Impaired Receivables					
Overdue Between 61 and 90 Days	10%	114	30	84	56
Overdue Between 91 and 180 Days	25%	261	38	224	200
Overdue More than 90 Days	90%	779	650	129	42
Total Overdue and Impaired Receivables		1,154	717	437	298
Receivables After Impairment		**2,949**	**717**	**2,232**	**1,905**

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. This analysis is performed annually and the value adjustment matrix will be adjusted if deemed necessary. 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 and contract assets that are less than 60 days overdue are not counted in the allowance of bad debt calculations. Accounts receivable that are more than 60 days overdue are grouped into 3 groups, 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:

	12/31/2019 k EUR	12/31/2018 k EUR
Balance at the Beginning of the Fiscal Year	455	337
Bad Debt Expenses for the Year	627	425
Write-Off of Bad Debts	(373)	(335)
Currency Exchange Differences	7	28
Balance at the End of the Fiscal Year	**717**	**455**

5. Other Assets

Other Current Assets

Other current assets include both financial and non-financial assets and are measured at amortized cost. They are composed as follows:

	12/31/2019 k EUR	12/31/2018 k EUR
Deposits and Prepayments	342	202
US Income Tax receivables	259	128
Restricted cash balances	225	189
Tax claims in Germany and the United Kingdom	24	19
Other	**15**	**15**
Total	**865**	**554**

The restricted cash balances are mainly related to defined contribution retirement plans and health plans. The US income tax receivables notably include a claim for reimbursement of previous years' alternative minimum tax ("AMT"), amounting to 252k 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 377k EUR (2018: 339k EUR). In addition, a part of the claim for reimbursement of the "alternative minimum tax" in the amount of 123k EUR was recognized as of December 31, 2018.

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.

Rights of use assets under leases are initially measured at cost, which is equivalent to the initial measurement of the lease liability, adjusted for payments made on or before the start of the lease term, plus any initial direct costs. The right of use assets is then depreciated on a straight-line basis from the date of commencement to the end of the lease term unless ownership of the underlying asset is transferred to Artnet at the end of the lease term or the cost of the right of use assets reflect the fact that Artnet will exercise a purchase option. In the balance sheet, the Group presents rights of use assets under tangible assets.

Maintenance expenses that neither enhance the value of an asset nor prolong the useful life are expensed as incurred.

Tangible assets in the 2019 and 2018 fiscal years developed as follows:

	Office Space (Right of Use Asset) k EUR	Computer and Hardware k EUR	Operating and Office Equipment k EUR	Leasehold Improvement k EUR	Total k EUR
Acquisition Costs					
As of 12/31/2017	**–**	**310**	**470**	**359**	**1,139**
Exchange Differences	–	13	22	17	52
Disposals	–	(10)	–	–	(10)
Additions	–	199	7	–	199
As of 12/31/2018	**–**	**512**	**499**	**376**	**1,387**
Exchange Differences	76	10	10	8	103
First-Time Adoption IFRS 16	3,713	–	–	–	3,713
Disposals	–	–	–	–	–
Additions	249	56	5	–	310
As of 12/31/2019	**4,038**	**578**	**513**	**383**	**5,513**
Depreciation					
As of 12/31/2017	**–**	**238**	**378**	**204**	**820**
Exchange Differences	–	12	19	11	42
Disposals	–	(8)	–	–	(8)
Deprecation for the Period	–	59	65	36	160
As of 12/31/2018	**–**	**301**	**463**	**251**	**1,015**
Exchange Differences	(2)	5	9	5	17
Disposals	–	–	–	–	–
Deprecation for the Period	865	86	29	38	1,019
As of 12/31/2019	**863**	**393**	**501**	**294**	**2,050**
Carrying Amount					
As of 12/31/2018	**–**	**212**	**36**	**125**	**373**
Includes: Finance Leases	–	110	21	–	131
As of 12/31/2019	**3,176**	**185**	**13**	**89**	**3,463**
Includes: Finance Leases	3,176	85	–	–	3,261

The depreciation expense of tangible assets is included in the cost of sales. As far as the rights to use offices are concerned, the depreciation is included in the General Administrative expenses.

As of 31 December 2019, the Group had no significant contractual obligations for the acquisition of intangible assets.

7. Intangible Assets

Intangible assets comprise 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 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 2019, 1,148k EUR (2018: 1,240k 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, the project FALCON, will improve quality assurance and efficiency for the whole company. As part of the project FALCON, quality control has become more automated in 2019, leading to cost savings and increased product quality.

It is expected that the whole project will be finalized in 2022.

Artnet began to completely rebuild its IT infrastructure with FALCON in 2018. Artnet strives for the complete automation of its production process to reduce maintenance costs for existing products and improve the performance of the Development Team.

With FALCON, Artnet also wants to ensure that it has the right technology foundation to successfully compete and grow in a rapidly changing business environment. Artnet, like a lot of other older tech businesses, build proprietary software systems. In the course of the usual technology maturation process this software is becoming outdated and needs to be replaced.

With FALCON, Artnet is also moving to a modern manufacturing process, becoming a software factory, as it were. This will allow Artnet to produce products similar to the way cars are built in a factory. There are many benefits to a factory approach. Increased consistency will lower the cost of training and maintenance. Reusable code components lower the risk of design flaws and defects, thereby ensuring quality. The streamlining and automating of product development increases productivity and reduces personnel costs as well. Also, Artnet will be able to buy specialized software from external vendors much less expensively than developing it in-house.

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. With regard to FALCON, the first criterion was relevant. Therefore, although this is not mandatory, Artnet performs an annual impairment test on the entire carrying amount of FALCON.

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 and ongoing maintenance in the amount of 1,716k EUR (2018: 1,702k EUR) were recorded as a development expense in the period in which they were granted.

Intangible assets in the 2019 and 2018 fiscal years developed as follows:

	Development Costs k EUR	Software k EUR	Total k EUR
Acquisition Costs			
As of 12/31/2017	**3,251**	**232**	**3,484**
Exchange Differences	154	8	162
Disposals	–	(57)	(57)
Additions	1,240	16	1,256
As of 12/31/2018	**4,645**	**200**	**4,845**
Exchange Differences	95	4	98
Disposals	–	–	–
Additions	1,148	31	1,179
As of 12/31/2019	**5,888**	**235**	**6,123**
Amortization			
As of 12/31/2017	**2,023**	**154**	**2,177**
Exchange Differences	105	8	113
Disposals	–	–	–
Amortization for the Period	317	10	327
As of 12/31/2018	**2,445**	**172**	**2,617**
Exchange Differences	49	3	52
Disposals	–	–	–
Additions	305	17	322
As of 12/31/2019	**2,800**	**193**	**2,993**
Carrying Amount			
As of 12/31/2018	**2,200**	**28**	**2,228**
Includes: Finance Leases	–	1	1
As of 12/31/2019	**3,088**	**43**	**3,131**
Includes: Finance Leases	–	23	23

As of December 31, 2019, 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:

	2019 k EUR	2018 k EUR
Current Income Taxes		
Income Tax Payments in France and Great Britain	–	(2)
US Corporate Tax (Federal, State) and Income Tax Expenses of Other Consolidated Companies	(5)	(1)
Tax Returns from Previous Years	–	170
Total Current Income Taxes	(5)	167
Deferred Tax		
Change in Deferred Tax Assets Based on Loss Carryforwards	(368)	(238)
Temporary Differences	393	474
Exchange Rate Differences	(25)	(53)
Total Deferred Taxes	–	183
Total Income Taxes	**(5)**	**350**

Tax refunds from the previous year 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 2019 balance sheet date, Artnet Corp. has a total of 12.7 million EUR (14.3 million USD) in federal carried-forward tax losses and 25.4 million EUR (28.6 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 million EUR (17.5 million USD) and 25.6 million EUR (29.3 million USD) for the State of New York which are applicable towards future profits. In the 2019 fiscal year, the carried-forward tax losses were utilized by achieving a taxable profit in the amount of 3.1 million USD and 0.8 million USD, respectively (2018: 3.9 million USD and 1.0 million USD, respectively). For the actual carried-forward tax losses and the deductible temporary differences of Artnet Corp., deferred tax assets of 1,263k EUR (2018: 1,237k EUR) were recognized in the consolidated balance sheet. On a US-dollar basis, no adjustment to the deferred tax asset was made in 2019, as the use of tax loss carryforwards was offset by the build-up of deductible temporary differences and the tax situation of Artnet Corp. has not changed significantly. In 2018, the increase in deferred tax assets by 236k EUR was mainly due to the stabilization of tax results in recent years and an improved outlook for future taxable income. In addition, tax accounting was adjusted in 2017 in order to be able to use the existing loss carryforwards as much as possible before they expire. 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 24.2% to 23.0%, 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 9.4 million EUR (10.6 million USD), and in 2021 in the amount of 2.3 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 37.6 million EUR (2018: 36.9 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 temporary differences of the following balance sheet items and carried-forward tax losses of Artnet Corp.:

	Deferred Tax Assets 12/31/2019 k EUR	**Deferred Tax Assets 12/31/2018 k EUR**
Deferred Tax Assets	496	864
Fixed Assets	495	200
Accounts Receivable	271	173
Total	**1,263**	**1,237**

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 23% (2018: 24%) 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.

	2019 k EUR	**2018 k EUR**
Earnings Before Tax from Continued Operations	4	694
Expected Income Tax Expense/(Benefit)—Tax Rate 23%	1	(168)
Non-Deductible Expenses and Other Effects	(90)	(83)
Tax Returns from Previous Years	–	169
Recognition of Deferred Tax Assets on Loss Carryforwards Used in Previous Years	–	490
Effect of Tax Rate Adjustments in the US	(74)	(245)
Reduction in Current Tax Expense Due to the Use of Tax Loss Carryforwards in the US	333	332
Non-Recognition of Deferred Tax Assets on Temporary Differences and Tax Loss Carryforwards in Germany and the US	(172)	(145)
Income Tax Expense / Tax Income as Per Statement of Comprehensive Income	(5)	490

9. Accounts Payable

Accounts payable are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market and are measured at amortized cost. Trade accounts payable generally comprise outstanding trade payable and current costs. The average payment term for liabilities is 30 days. The carrying amount of trade accounts payable corresponds to their fair value.

10. Accruals and Other Liabilities

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

	12/31/2019 k EUR	12/31/2018 k EUR
Outstanding Invoices	478	546
Bonus Payments	449	400
401(k) Payments (Retirement Provisions in the US)	135	127
Taxes and Social Security	24	87
Remaining Vacation Days	122	19
Other	87	65
Total	**1,295**	**1,244**

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.

12. Liabilities from Finance Leases

Liabilities from leasing comprise all obligations from leasing agreements in accordance with IFRS 16. In addition to leasing agreements for operating and office equipment, rental agreements for office space are shown in particular.

For the first time, lease liabilities are measured at the present value of the lease payments not yet made at the date of commencement of the lease term, discounted at the Group's incremental borrowing rate (currently estimated to be at 3%). The lease payments included in the valuation of the lease liabilities comprise the fixed payments. The term of the leases corresponds to the non-cancellable minimum terms.

The Group made use of the relief of short-term leases (term of less than 12 months) and low value assets and recognized the lease payments as expenses over the term of the respective lease agreement.

Lease liabilities are measured at amortized cost using the effective interest method. It was not necessary to revalue the leasing liabilities due to index or interest rate changes or changes in estimates. The contracts do not contain any purchase or extension options.

The lease liabilities developed in 2019 as follows:

	2019 k EUR
Opening Balance	110
Effect of first-time adoption of IFRS 16	3,714
Additions	272
Payments	(872)
Interest	109
Exchange rate differences	(22)
Total	**3,310**

In the 2019 financial year, expenses amounting to 80k EUR for short-term leases were recognized directly as general and administrative expenses.

The reconciliation from minimum lease payments to present value is as follows:

12/31/2019	Total k EUR	< 1 year k EUR	> 1–3 years k EUR
Present Value of Minimum Lease Payments	3,310	1,051	2,259
Interest Portion	170	86	84
Minimum Lease Payments	**3,480**	**1,137**	**2,343**

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**

13. Other Liabilities — Long Term

On December 16, 2019, the Company was granted a loan in the amount of 200k USD. The unsecured loan is due on December 31, 2022 and has a fixed interest rate of 6% p.a.

14. Contract Liabilities and Revenue Recognition

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

With the exception of the Galleries segment, 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 2019 was satisfied in previous periods.

The outstanding performance obligations relate to the Price Database (1,443k EUR; 2018: 1.324k EUR), Galleries (370k EUR; 2018: 355k EUR), and Advertising (102k EUR; 2018: 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, 2019 amounting to 1,915k EUR, as compared to 1,764k EUR in the previous year. The contracted liabilities as of December 31, 2018 were completely recognized as revenue in 2019. 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 760k EUR (2018: 595k EUR).

15. Equity

	2019	2018
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

All Artnet AG shares are registered shares.

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. The authorized capital expired in 2019.

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. 193,907 shares options granted in 2009 could not be executed until the date of expiration in 2019 and expired. All of the outstanding 205,000 issued share options can generally be exercised by using conditional capital (conditional capital 2009/I).

Treasury Shares

As of December 31, 2019, 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, lease liabilities 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. The leasing liabilities arise in particular from the office rental agreements in New York and Berlin with terms until 2023 and 2022, respectively. Additionally, in 2019, Artnet Corp. received a loan of 200k USD following unusually late payments by clients to ensure financial stability in case of further delays. 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 responsible person 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".

The Group's financial liabilities comprise accounts payable, lease liabilities, loan liabilities, and other liabilities. Financial liabilities are measured at amortized cost using the effective interest method.

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 2019 and 2018 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 2019 k EUR	Net Results 2018 k EUR
Loans and Receivables	(666)	(464)
Financial Liabilities	(115)	–
Total	**(781)**	**(499)**

The components of net results are gains or losses from exchange rate differences, and bad debt expenses for doubtful accounts and write-offs. Interest expense increased to 109k EUR (2018: 1k EUR) and is 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 book value of 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 2020 fiscal year. If revenue does not increase as expected, planned investments and project developments may be rescheduled, or their implementation may be extended.

There are no material interest rate risks in the Artnet Group. 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, is shown in the following chart:

12/31/2019	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	1,408	1,408	1,408	–
Loan	178	199	11	188
Liabilities from Finance Leases	3,310	3,480	1,137	2,343

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

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 2020 fiscal year.

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	
	12/31/2019 k EUR	12/31/2018 k EUR	12/31/2019 k EUR	12/31/2018 k EUR
EUR	385	413	106	75
GBP	294	313	35	2

Additionally, the intragroup receivables validating in euros from Artnet Corp. against Artnet AG amounted to 1,666k EUR as of December 31, 2019 (2018: 1,540k 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 2019, currency exchange effects in the amount of 31k EUR were recognized as a net investment directly in "Foreign Currency Translation," which increased the equity (2018: 69k EUR). In total, the amounts recorded directly in equity are (180k) EUR as of December 31, 2019 (December 31, 2018: (146k) 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 12/31/2019 k EUR	EUR 12/31/2018 k EUR	GBP 12/31/2019 k EUR	GBP 12/31/2018 k EUR
+10%				
Result	(41)	(32)	(12)	(19)
Equity	36	27	0	(2)
-10%				
Result	50	39	15	23
Equity	(44)	(33)	0	3

The value of the US dollar against the euro increased by 2% from 0.8729 EUR on December 31, 2018 to 0.8907 EUR on December 31, 2019.

Interest Rate Risk

As of December 31, 2019, and 2018, there are no liabilities with a floating interest 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. As of December 31, 2019, 205,000 stock options were outstanding. 193,907 shares options granted in 2009 could not be executed until the date of expiration in 2019 and expired.

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

130,000 stock options granted in 2010 could not be exercised, as the market price for the Group's shares were 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 2019 financial year. The outstanding options on December 31, 2019, had a weighted average remaining term of 1.87 years (2018: 1.91 years).

The fair value of the stock options was calculated in 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	2019 k EUR	2018 k EUR
Cost of Sales	4,300	4,489
Sales and Marketing	4,977	4,171
General and Administrative Expenses	1,635	1,615
Product Development	1,001	1,080
Total Personnel Expenses	**11,913**	**11,354**

While personnel expenses remained the same in the operating currency of US dollars of 13,337k USD (2018: 13,395k USD), it increased in the reporting currency of euros by 5% due to exchange rate effects.

The total personnel costs in the 2019 and 2018 fiscal years include social security expenses of 1,432k EUR and 1,357k EUR, respectively, and 401(k) expenses of 133k EUR and 116k EUR, respectively.

On average, the Group employed 125 full-time employees in 2019, as compared to 128 in the previous year. Additionally, the Group employed two part-time employees in 2019 and five part-time employees in 2018. In Sales and other departments, the Group had three freelancers, as in the previous year.

Taken into account part-time and freelance employees, Artnet employed a monthly average of 130 and 136, respectively, in 2019 and 2018. The employees are allocated to the following expense categories:

	2019	2018
Cost of Sales	60	68
Sales and Marketing	44	42
General and Administrative Expenses	12	13
Product Development	14	13
Total	**130**	**136**

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 2019 and 2018, the matching contributions were 133k EUR and 116k 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:

	2019 EUR	2018 EUR
Numerator (Earnings): Net income for the fiscal year	(641)	1,044,268
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	20,753	17,775
Weighted average number of ordinary shares used to calculate dilutive earnings per share	5,573,739	5,570,761

The weighted average exercise price of the stock options granted in 2010 (5.13 EUR) exceeds the average share price in 2019 (3.65 EUR), while the stock options granted in 2014 have an average exercise price of 2.64 EUR. These were not exercised. For the stock options issued in 2014, a dilutive effect of 20,753 (2018: 17,775) shares was calculated using the treasury stock method. Diluted earnings per share of 0.00 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:

	2019 k EUR	2018 k EUR
Scheduled Amortization/Depreciation	1,341	488
Personnel Expenses	11,913	11,354

Scheduled depreciation and amortization are presented in the consolidated statement of comprehensive income as part of the cost of sales and related to the offices as part of General Administrative expenses. 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 mainly interest expenses for liabilities from leases in the amount of 109k EUR (2018: 1k EUR).

Other Income and Expenses

In 2019, the realized and unrealized currency exchange rate gains amounted to 50k EUR (2018: currency exchange rate gain of 35k EUR). In addition, the reversal of a liability for Commercial Rent Tax of 38k EUR is shown here.

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.

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.

2019	Revenue k USD	Contribution Margin II k USD
Artnet Galleries	5,926	3,038
Artnet Price Database	7,891	4,378
Artnet Auctions	3,916	271
Artnet News	4,145	(549)
Total	**21,878**	**7,138**

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**

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	2019 k USD	2018 k USD
Contribution Margin II	7,138	8,119
Fix Costs included in Sales Expenses Including Depreciation 576k USD (Previous Year: 463k USD)	2,474	2,671
Fix Costs included in General and Administrative Expenses	3,909	3,999
Fix Costs included in Product Development Expenses	558	544
Operating Income	**197**	**905**

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:

2019	Revenue in Consolidated Income Statement k USD	Allocated Advertising Revenue k USD	Revenue by Segment k USD
Segments			
Artnet Galleries	4,998	928	5,926
Artnet Price Database	7,633	258	7,891
Artnet Auctions	3,869	47	3,916
Artnet News	–	4,145	4,145
Allocated Advertising Revenue	5,378	(5,378)	–
Total	**21,878**	**–**	**21,878**

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**

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 Management Board:

2019 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
Artnet Galleries	366	267
Artnet Price Database	396	235
Artnet Auctions	390	182
Artnet News	349	17
Total	**1,501**	**701**

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**

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	2019 k EUR	2018 k EUR
US	11,465	10,213
Europe (excluding Germany)	4,804	4,394
Germany	1,355	1,196
Other	1,918	2,549
Total	**19,542**	**18,322**

Almost all of the Group's assets, including both tangible and intangible assets, are located in the United States. An exception is the right to use the office in Berlin.

As in the previous year, the Group's scheduled depreciation and amortization amounting to 1,341k EUR, is mainly allocated to assets in the United States (2018: 488k EUR).

25. 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 106k EUR in 2019, of which 3k EUR resulted from the previous year, and 81k EUR in 2018. In addition, the Company recorded 9k EUR in 2019 and 12k EUR in 2018, for other services. All fees are recognized as expenses in 2019 and 2018, respectively.

26. 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 2019 and 2018 fiscal years, Jacob Pabst received the following remuneration from the Group:

	2019 k EUR	2018 k EUR
Fixed Salary	368	318
Value of Additional Payments (Health Insurance)	5	11
Fixed Remuneration Components	374	329
Bonus (Variable Compensation)	37	32
Total	**411**	**360**

Supervisory Board

In the 2019 fiscal year, the following people were Supervisory Board members:

- Hans Neuendorf, Berlin, Germany, chairman, elected as member at shareholder meeting on May 15, 2019
- Dr. Pascal Decker, Berlin, Germany, vice chairman, elected as member at shareholder meeting on May 15, 2019

  Chairman of the Supervisory Board of Aktiengesellschaft TOKUGAWA i.L.
- Bettina Böhm, Berlin, Germany, elected as member at shareholder meeting on May 15, 2019

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

	2019 k EUR	2018 k EUR
Hans Neuendorf	50.0	50.0
Dr. Pascal Decker	37.5	15.1
Bettina Böhm	25.0	15.4
Dr. Bernard Heiss	–	17.0
Dr. Kilian Jay von Seldeneck	–	8.3
Total	**112.5**	**105.8**

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 one item on the online auctions platform, Artnet Auctions. In accordance with the terms and conditions at the time of the auction, no commission was charged for the sale, as the value of the artwork exceeded 15k USD. In 2018, Hans Neuendorf sold two items on the online auction platform, Artnet Auctions. In accordance with the terms and conditions in 2018, no commission was charged for these sales, as the value of each artwork exceeded 10k USD.

For related parties of Mr. Neuendorf (chairman) and related parties of Mr. Pabst (CEO), work or consulting services at standard market conditions totaling 321k EUR in 2019 and 369k EUR in 2018, respectively, were recognized as expenses.

In 2018, a consulting agreement with Galerie Neuendorf AG was extended until August 31, 2019. In August 2019, this agreement was extended for two years until August 31, 2021. 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 Group. In 2019 and 2018, Mr. Neuendorf invoiced 336k EUR, respectively.

27. 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

The capitalization of website or software development costs relates to new products, material additions, or improvements to the website that the Group anticipates will lead to revenues or cost savings in the future. The revenue and cost projections for these new products and developments are based on Management's best estimates, but actual results may differ from these 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 2020 fiscal year.

28. Significant Events After the Balance Sheet Date

In May 2020, the group received a loan from the US Small Business Administration as part of the Paycheck Protection

Program in the amount of USD 1,667k USD. The loan does not have to be repaid or has only to be repaid partially if certain conditions are met.

In the period from the balance sheet date of December 31, 2019 to June 24, 2020, the global spread of the new coronavirus and the subsequent economic downturn had a significant impact on the Group's net assets, financial position and results of operations, which caused no significant risk to the company. Additional explanations can be found in the economic report, the risk and opportunity report and the outlook as well as in the notes to the consolidated financial statements.

Before the consolidated financial statements were published, litigation risks were successfully minimized by settling a legal dispute. The settlement of the legal dispute will allow for a provision of around 200k EUR to be reversed in 2020. With the dispute solved, Artnet is able to further focus on the development of the individual business segments.

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

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

Announcement Date:	Person or entity subject to the notification obligation: (Complete chain of subsidiaries starting with the top-ranking controlling person or the top-ranking controlling company):	+ = exceeding – = reduction	Threshold %	Date on which threshold was crossed or reached	% of voting rights attached to shares	Direct voting rights (§21 WpHG)	Indirect voting rights (§22 WpHG)	Comment
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		
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		
10/20/2019	**Rüdiger K. Weng**	+	3, 5, 10	12/20/2019	10.21		575,000	
	Rüdiger K. Weng A+A GmbH							
	Weng Fine Art AG				10.03	565,000		
12/30/2019	**Dr. Kyra Heiss**	-	10	12/23/2019	5.24	294,889		

Berlin, June 24, 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, 2019, 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, 2019, to December 31, 2019, and notes to the consolidated financial statements, including a summary of signif- icant accounting policies. In addition, we have audited the group management report of Artnet AG for the financial year from January 1, 2019 to December 31, 2019. 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, 2019, and of its financial performance for the financial year from January 1, 2019 to December 31, 2019 and;
- the accompanying group management report for the year 2019 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, 2019 to December 31, 2019. 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) Capitalization of development costs

Re 1) Revenue Recognition and Deferred Revenue

a) Financial Statement Risk

For the financial year from January 1, 2019 to December 31, 2019, the Group reports revenue of 21,878k USD (19,542k EUR). Also, as of December 31, 2019, payments of 2,151k USD (1,915k 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. 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) Capitalization of Development Costs

a) Financial Statement Risk

In the consolidated financial statements of Artnet AG as of December 31, 2019, intangible assets in the amount of 3,467k USD (3,088k EUR) are reported. In the 2019 financial year, development costs of 1,289k USD (1,148k EUR) were capitalized. These are exclusively attributable to project FALCON.

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", "Risk Report", 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 development stages 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 Engineering 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, respectively the Supervisory Board, 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 report of the Supervisory Board
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code,
- the remaining parts of the Annual Report, but not the consolidated financial statements, not the Group management report information included in the content audit and our associated audit opinion, and
- 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.

The Supervisory Board is responsible for the Supervisory Board report. The executive director and the Supervisory Board are responsible for the declaration pursuant to Section 161 of the Aktiengesetz (AktG - German Public Limited Companies Act.) on the German Corporate Governance Code, which is part 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". Otherwise, the executive director is also responsible for the other information.

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, the Group management report information included in the content audit, 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:

- Obtain an understanding of internal controls 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 15, 2019. We were engaged by the Supervisory Board on November 20, 2019.

We have been the group auditor of Artnet AG. Berlin, 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, June 24, 2020

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.

Artnet AG
Supervisory Board
Hans Neuendorf, Chairman
Dr. Pascal Decker, Deputy Chairman
Bettina Böhm
Management Board
Jacob Pabst, CEO

Artnet Worldwide Corporation
Jacob Pabst, CEO

Artnet UK Ltd.
Jacob Pabst, CEO

Addresses

Artnet AG
Oranienstraße 164
10969 Berlin
info@artnet.de
T: +49 (0)30 209 178-0
F: +49 (0)30 209 178-29

Artnet Worldwide Corporation
233 Broadway, 26th Floor
New York, NY 10279
USA
info@artnet.com
T: +1-212-497-9700
F: +1-212-497-9707

Artnet UK Ltd.
Morrell House
98 Curtain Road
London EC2A 3AF
United Kingdom
info@artnet.co.uk
T: +44 (0)20 7729 0824
F: +44 (0)20 7033 9077

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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Concept and Production
Artnet Worldwide Corporation