artnet AG

Annual Report 2016

Key Financial Figures for the artnet Group

	12/31/2016	12/31/2015	Difference (Balance)
Revenue (k USD)	19,237	19,184	53
Profit from Operations (k USD)	713	785	(72)
Earnings Before Tax (k USD)	746	745	1
Earnings per Share (USD)	0.13	0.13	–
Weighted Number of Shares (k USD)	5,553	5,553	–
Cash Flow from Operating Activities (k USD)	989	235	704
Staff (Year End)	115	116	(1)
Cash and Cash Equivalents (k USD)	1,110	1,084	26
Equity (k USD)	1,546	727	819
Total Assets (k USD)	5,812	5,436	376

Development of the artnet AG Share XETRA Closing Prices in 2016

Table of Contents

Dear Shareholders,

Jacob Pabst
CEO, artnet AG

The 2016 fiscal year was characterized by a high level of uncertainty following both the United Kingdom's impending withdrawal from the European Union and the American presidential election. At the same time, the global auction market declined by about 20.9% to 11.7 billion USD. This decrease was particularly pronounced in the United States, where the art auction market contracted by 41% to 4.6 billion USD after having reached a revenue level of 7.5 billion USD in the previous year. Despite this challenging economic climate, artnet has maintained its leading position in the industry.

artnet Auctions, our online auction platform, resisted the declining trend of auction sales and increased its fee-based revenue in 2016 by 10% to 3,195k USD. Compared to the previous year, the average price of lots sold increased by 26% to 9,272 USD. Meanwhile, the number of newly registered users rose by 22%, illustrating a growing interest in the platform. Though we missed profitability in this segment by only 64k USD, this represents a significant improvement compared to the previous year's Contribution Margin II of -738k USD.

Revenue in the Galleries segment in 2016 declined by 3% to 5,257k USD as compared to 2015, while new membership sales increased by 55% during the same period. While we lost member galleries, our net total remained mostly stable, representing an almost complete turnaround for the product. In 2016, we developed the Gallery Portal tool. This content management system improves internal efficiencies and allows galleries to manage their member sites independently, a feature that many clients had expressed interest in. The Gallery Portal is currently in beta testing with selected galleries, and the initial feedback is overwhelmingly positive.

The Price Database continues to generate the highest revenue for the company at 7,254k USD and contributed the highest Contribution Margin II of all the business segments in 2016. Thanks to a scheduled price increase, we were able to keep revenue stable despite a slight decline in the number of subscribers. Since the fall of 2016, the segment is operating under new leadership which has already led to many process optimizations and efficiency gains in data entry and maintenance. In the future, we will be able to further automate workflows and lower personnel costs.

After last year's strong increase in advertising revenue by approximately 91%, ad revenue declined slightly in 2016 by 2% to 3,531k USD. While the previous year's success could not be replicated due to the current market environment and strong competition, artnet News increased its ad revenue by about 14% as compared to 2015. I continue to see growth potential for advertising, especially for the artnet News segment, and the revenue increase also contributed to a significant improvement of the Contribution Margin II for this segment in 2016. This key figure improved to -391k USD as compared to -807k USD in 2015.

Our news platform, which had originally been introduced as a marketing tool, has thus come much closer to profitability.

Overall, in 2016 we increased our revenue by 0.28% to 19,237k USD as compared to the previous year. This lead to a net profit of 701k USD, which was positively affected by the capitalization of product development expenses of 473k USD. Though we missed our financial goals for this year, I remain pleased with the results in light of the fluctuations the art market is undergoing.

Altogether, I perceive artnet as strongly positioned in the current market environment. We offer a broader product portfolio than our competitors, and furthermore, we developed artnet Auctions and artnet News without debt financing. The positive performance of artnet Auctions, especially during the second half of 2016, clearly shows that the public's acceptance of online auctions is continually expanding.

We will invest in the development and improvement of our entire product portfolio to expand our market leadership and growth. artnet will continue to offer our clients the very best art market solutions in the years to come.

Berlin, March 2017

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 consignors, specialists, and collectors.

Company Development

artnet AG was formed in 1998 as an information service provider for the art market. It took over the 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 Fine Art and Design. This database was created as a response to the decentralized art market of the late 1980s. At the time, the market lacked transparency, which was a stumbling block for buyers in particular. The art business had, of course, always been international, but it was managed locally in a relatively inefficient market by tens of thousands of geographically disparate art dealers, galleries, auction houses, book publishers, museums, and collectors.

The Price Database provides these local markets with a global standard of comparison, listing fine art, design, and decorative art auction results, including results for more than 330,000 artists and designers. Since 2009, the Price Database Decorative Art has provided results for international antique auctions. Today, the Price Database contains over 11 million auction results from more than 1,700 international auction houses, dating back to 1985.

Another pillar of the business is the Gallery Network, which was introduced in 1995. With approximately 1,300 galleries and over 187,000 artworks by nearly 29,000 artists from around the globe, this product is the world's 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, prices, 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 faster turnaround and lower commissions, artnet Auctions is available around the clock. Every component of a sale, from consignments to placing of 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, developments, 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.

An office was opened in London in November 2007, with the formation of artnet UK Ltd., the UK subsidiary of Artnet Worldwide Corporation. artnet AG and its subsidiaries employ a total of 115 people. The office in Paris closed in 2012, and in 2016, the French subsidiary has been liquidated.

Company Background

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

Report of the Supervisory Board

The former Supervisory Board, which until the annual general meeting on July 13, 2016 consisted of John Hushon, chairman, Hans Neuendorf, deputy chairman, and Piroschka Dossi, member, convened for the last time in this formation on July 12, 2016 to discuss the upcoming annual meeting. The current Supervisory Board would like to thank Ms. Dossi and Mr. Hushon for their outstanding work during their years of service on the Supervisory Board.

At the annual meeting held on July 13, 2016, Bernard Heiss, Andreas Langenscheidt, and Hans Neuendorf were elected to the Supervisory Board. The inaugural board meeting was held on the same day. The Supervisory Board elected Andreas Langenscheidt as chairman, and Hans Neuendorf as deputy chairman of the Supervisory Board. The Supervisory Board has not formed any committees.

All members of the Supervisory Board personally attended the meetings held in Munich on September 15, 2016 and October 13, 2016. On December 6–7, 2016, a two-day Supervisory Board meeting was held on the premises of Artnet Worldwide Corp. in New York. On September 23, 2016, February 13, 2017, and February 28, 2017, meetings were held by telephone with all members of the Supervisory Board in attendance. In addition, there were numerous informal telephone calls and email exchanges to address specific business issues, both with and without the presence of Jacob Pabst, CEO and sole member of the Management Board.

Prior to each meeting relevant information on business operations, and in particular on financial matters, were exchanged. The chairman of the Supervisory Board prepared the agenda for the meetings in close collaboration with his colleagues on the board. At each meeting, the Supervisory Board discussed content, strategic, financial, business, and editorial concerns, both with and without the presence of the Management Board.

The Management Board informed the Supervisory Board every month about business developments, in particular the current state of finances, based on the Company's standardized controlling and reporting system. The Supervisory Board monitored and addressed business processes, decisions, and performance of the Management Board at all times.

During the Supervisory Board meeting in New York, all members of the Supervisory Board were presented with a comprehensive overview of the Company and its senior management. Every member of the Company's senior leadership reported on their business segment in detail, and technical questions concerning the further development of different products and websites were explained.

In addition, at the Supervisory Board meeting in New York strategic questions were discussed with the Management Board. The Supervisory Board analyzed the Company by focusing on its business segments, particularly focusing on the artnet News and Auctions segments.

During the annual general meeting on July 13, 2016, the Management Board informed shareholders in detail about the pending litigation with a photographer in connection to an alleged violation of copyright infringement. This legal dispute is still pending, and a corresponding provision is recognized in the balance sheet. To this day, no payments have been made to the photographer. The Supervisory Board focused on the legal disputes with the photographer during the meetings held in October and December 2016.

In 2016, artnet achieved slight revenue growth overall. However, financial goals for revenue and profit were not reached. In 2016, the net profit in US dollars nearly reached the level of the previous year.

The revenue growth for the artnet News and Auctions segments—up by 14% and 10% in comparison to 2015, respectively—was remarkable, even though the segments again delivered negative results in 2016, as was expected. Both segments are considered pronounced growth areas by the Supervisory Board.

The annual financial statements (HGB) and the consolidated financial statements (IFRS), together with the Management Report of artnet AG and the Group Management Report for the financial year 2016, were audited by the firm Ebner Stolz GmbH and Co. KG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, Germany. The Supervisory Board determined that the auditors are independent. The auditors determined that both the annual financial statements and the consolidated financial statements present a true and fair view of the net assets, financial position, and result of operations for the financial year, and issued an unrestricted audit opinion in each case. After completing their assessment, the auditors participated in the Supervisory Board's meeting to discuss the financial statements and report on the results of their audit. The Supervisory Board concurred with their findings.

The Supervisory Board reviewed the annual financial statements and the consolidated financial statements of artnet AG, as well as the associated management reports. Having completed its own in-depth review, no objections were raised by the Supervisory Board. The Supervisory Board approved the annual financial statements of artnet AG prepared by the Management Board in the version audited by Ebner Stolz GmbH and Co. KG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, Germany, with a resolution on March 20, 2017. The annual financial statements as of December 31, 2016 were thus adopted. The consolidated financial statements dated as of December 31, 2016 were also approved by the Supervisory Board by way of a resolution on March 20, 2017.

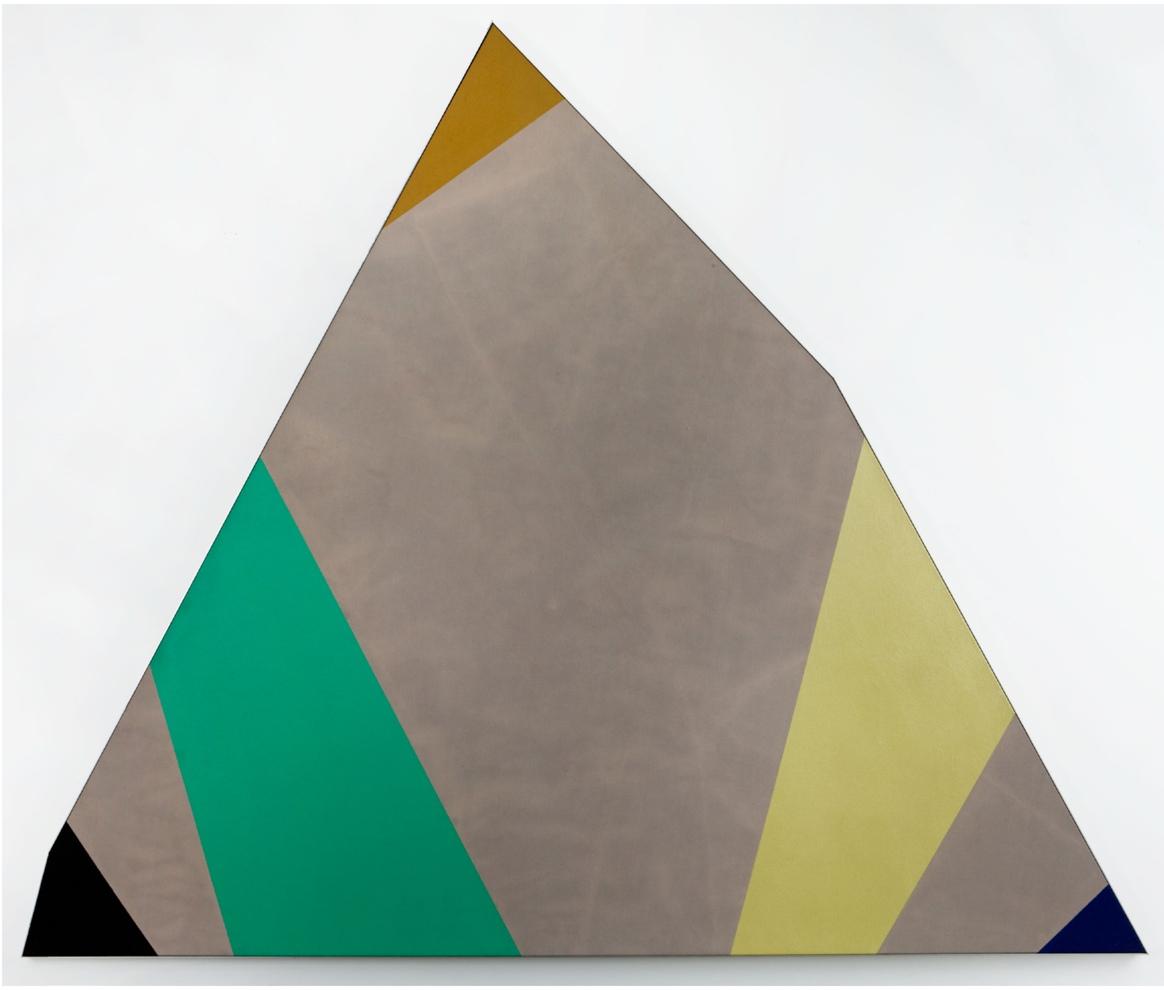
The Supervisory Board would like to thank the Management Board and all of the employees for their work over the past year.

Munich, March 20, 2017

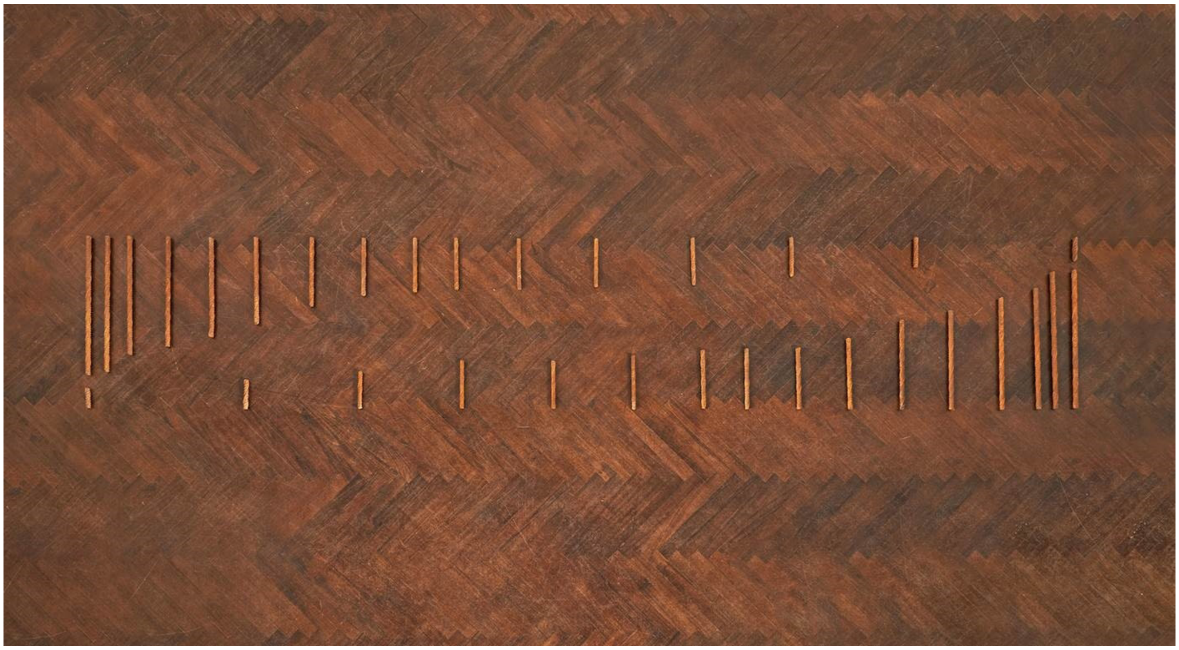
Andreas Langenscheidt

On behalf of the Supervisory Board
Andreas Langenscheidt
Chairman of the Supervisory Board, artnet AG

George Condo, *Face*, 1985.
Sold for $252,000 (with premium) on March 29, 2016 on artnet Auctions.
©2017 George Condo / Artists Rights Society (ARS), New York, NY.



Kenneth Noland, *Orientate*, 1976.
Sold for $180,000 (with premium) on November 29, 2016 on artnet Auctions.
Art ©Estate of Kenneth Noland / Licensed by VAGA, New York, NY.



Carl Andre, *32-Part Reciprocal Invention*, 1971.
Sold for $150,000 (with premium) on July 19, 2016 on artnet Auctions.
Art ©Carl Andre / Licensed by VAGA, New York, NY.

Corporate Governance Report

artnet attaches great importance to corporate governance. artnet AG complies with the recommendations of the German Corporate Governance Code in the current version dated May 5, 2015, and published in the German Bundesanzeiger on June 12, 2015, with the exception of the recommendations in No. 3.8 para. 3, 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 (age limit for members of the Supervisory Board), and 7.1.2 sent. 4. 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, up-to-the-minute, 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' Dealings Transactions and Shareholdings of Managing Directors and Supervisory Board Members

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

Trade Date	October 6, 2016
Name	Dr. Bernhard Heiss
Function	Member of the Supervisory Board
Name of Financial Instrument	Shares
Nature of the Transaction	Acquisition
Price	2.64 EUR
ISIN / WKN	DE000A1K0375 / A1K037
Volume	637,824 EUR

Trade Date	October 6, 2016
Name	Andreas Langenscheidt
Function	Chairman of the Supervisory Board
Name of Financial Instrument	Shares
Nature of the Transaction	Acquisition
Price	2.64 EUR
ISIN / WKN	DE000A1K0375 / A1K037
Volume	422,400 EUR

Trade Date	October 6, 2016
Name	Ulrike Langenscheidt
Function	Person closely associated with Chairman of the Supervisory Board
Name of Financial Instrument	Shares
Nature of the Transaction	Acquisition
Price	2.64 EUR
ISIN / WKN	DE000A1K0375 / A1K037
Volume	171,600 EUR

Trade Date	December 29, 2016
Name	Andreas Langenscheidt
Function	Chairman of the Supervisory Board
Name of Financial Instrument	Shares
Nature of the Transaction	Acquisition
Price	2.26 EUR
ISIN / WKN	DE000A1K0375 / A1K037
Volume	2,258 EUR

On March 20, 2017, the Management Board and Supervisory Board held 1,954,101, or 34.7%, of the shares or financial instruments based thereupon.

Supervisory Board	
Galerie Neuendorf AG	1,523,551 shares
Dr. Bernhard Heiss	241,600 shares
Andreas Langenscheidt	186,849 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 on 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 March 20, 2016 and the updated version on March 31, 2016. The Management Board and Supervisory Board of artnet AG complied with the Code dated May 5, 2015 (published in the official section of the federal gazette on June 12, 2015) until the present day, with 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 4.2.1, 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.

3. **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.

4. **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.

5. **Number 5.4.1, paragraph 2, sentence 1: The Code recommends to set an age limit for members of the Supervisory Board.**

   artnet AG considers a provision of this nature 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.

6. **Number 7.1.2, sentence 4: "The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period."**

   In 2016, the Consolidated Financial Statements for the 2015 fiscal year were not published within the 90-day period recommended by the Code. However, they were published within the statutory period.

In the future, artnet AG will comply with the recommendations of the current Code, with the exception of number 1 to 5 as listed above.

Berlin, March 20, 2017

Jacob Pabst
CEO, artnet AG

On behalf of the Supervisory Board
Andreas Langenscheidt
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 the artnet Group. The Group Management Report includes a fair review of the development and performance of the business, as well as the position of the Group, along with a description of the principal opportunities and risks attributed to the expected Group development.

Berlin, March 20, 2017

Jacob Pabst
CEO, artnet AG

Group Management Report 2016

1. General Information and Business Activities

Business Model and artnet Group Organization

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

Artnet Corp. has one wholly owned subsidiary, artnet UK Ltd., which provides sales and client support from the United Kingdom. The liquidation of the second wholly owned subsidiary, artnet France Sarl, was initiated in 2016.

With a monthly average of 2.2 million visitors to its domains, artnet.com, artnet.com/auctions, artnet.de, artnet.fr, and news.artnet.com, artnet offers the world's most comprehensive art market overview. The provision of timely information about artwork values, artists, galleries, price developments, exhibitions, news, and reviews enables collectors and art professionals to better navigate the art market.

As of December 31, 2016, the Gallery Network represented approximately 1,300 of the world's most prestigious galleries from 51 countries. Members of the Gallery Network are indexed by specialty and location, with over 187,000 artworks by 29,000 artists featured on the platform. In addition to all forms of Modern and contemporary fine art, the Gallery Network also offers decorative art and design objects from the 1st century BC to the present. Concurrently, Auction House Partnerships offer auction houses a way to gain international exposure for their sales and drive a high volume of potential buyers directly to their proprietary site. With a partnership, auction houses have the flexibility to post complete or partial sales on artnet, with the option of linking every lot on artnet back to the same lot in their own online catalogue. All upcoming sales are listed on our Events page, and rank high on both artnet and external search engines, such as Google. Auction House Partnerships also provides reporting, including direct traffic from artnet to the client.

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

Market Alerts, a derivative of the Price Database, 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.

Analytics Reports provides and visualizes art market information, and allows users to monitor the performance of artists and art movements, customer-specified groups of artworks, and art categories.

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

artnet News is the world's first dedicated 24-hour international art market newswire. This platform informs, engages, and connects members of the art community to the events, trends, and people shaping the market and global art industry through timely articles and insightful opinion pieces.

Objectives and Strategies

artnet will remain faithful to its founding mission to increase transparency in the art market. Our goal is to maintain our leadership position in the increasingly competitive online art market, where we have operated for more than 25 years. artnet's Management Team is confident that with constant product improvements and innovations, we will continue to strengthen our brand.

Control System

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

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

Research and Development

The artnet site forms the foundation of the Group's products. It is of the utmost importance to keep pace with the latest developments in technology, and to develop new products that increase benefits for customers. In this regard, our developers use software based on Microsoft technology, which gives them the flexibility to adapt applications to our customers' ever-changing needs. In 2016, the Product Development Team focused on the redesign of artnet News, the development of the Gallery Portal (a content management system tool which will be used by all Gallery Network members), and invested in a data organization and cleanup initiative. The artnet News redesign improved usability, readability, and advertising revenue. The Gallery Portal will allow members to manage their own inventory on their member site, with the goal of increasing the number of artworks added to the site, a rise in inquiries, and better-performing SEO. Lastly, the cleanup and restructuring of data will allow artnet to build more powerful machine-learning initiatives in 2017, with a unified data structure consistent across all products. In 2016, costs for the artnet News redesign and the development of the Gallery Portal tool totaled to 591k USD (534k EUR) of which 473k USD (449k EUR) were capitalized.

2. Economic Report

2.1 Macroeconomic and Industry Conditions

Global Economic Situation

The global economy grew moderately in 2016. However, there is a wide array of possible outcomes given the uncertainty of the United States' administration and its global ramifications. Growth predictions have marginally worsened for emerging markets and developing economies, where financial conditions have generally tightened. Near-term growth prospects have improved for China due to expected policy initiatives. For a number of other large economies, most notably India, Brazil, and Mexico, the outlook has worsened.

Art Market Development

2016 marked another year of decline in the fine art auction market. Global fine art sales brought in a collective 11.7 billion USD, a decrease of 20.9% compared to 2015, effectively returning the market to its 2010 total of 11.45 billion USD. This performance is the largest decline since the recession in 2009, when the market declined by 36%.

China was by far the strongest-performing market, growing nearly 13% since 2015. By contrast, auction sales in the United States shrank by 40%, due in part to macroeconomic factors. Meanwhile, the United Kingdom achieved 2.1 billion USD in 2016, experiencing a 30% loss in total sales value over 2015 with a decrease of 14% in lots sold.

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 Worldwide Corporation, is located in New York, the global center of the art market, and thus incurs its expenses mainly in US dollars. As a result of the significantly increased strength of the US dollar since the previous year, presenting this years' results in US dollars is more reflective of recent economic developments than presenting in euros, as results in euros are strongly affected by exchange rate fluctuations. Therefore, the performance of the Group is described in US dollars, while the impact of the USD/euro currency exchange will be described in a separate section.

Result of Operations

In the 2016 and 2015 fiscal years, artnet has maintained its highest revenue in the Company's history of 19,237k USD and 19,184k USD, respectively. Revenue fell below expected projections of 20,000k USD to 21,000k USD, mainly due to high expectations from advertising and Auctions revenue. The operating result decreased in 2016 by 9% to 713k USD, as compared to 785k USD in 2015. The net profit totaled to 701k USD, which was below the anticipated profit of 1,000k USD to 1,300k USD—this was largely due to increased personnel and administrative costs. While the Price Database and Galleries segments achieved strong positive results overall, the artnet News and Auctions segments have not yet generated a positive contribution to profits.

Revenue Growth

Despite a challenging and competitive market environment, artnet achieved a slight increase in revenue by 53k USD or 0.28% to 19,237k USD in 2016, as compared to the previous year.

In 2016, revenue from artnet Auctions increased by 10% to 3,195k USD, as compared to 2,906k USD in 2015. Therefore, the anticipated strong revenue growth was only partly achieved. The 10% revenue increase is mainly due to the decision made in June 2016 to only include lots above 3,000 USD. In comparison to the second half of 2015, the average price of lots sold increased by 65% to 11,778 USD in the same period in 2016.

In 2016, the average price per lot rose from 7,358 USD to 9,272 USD, while the number of lots sold decreased from 1,762 to 1,571 in 2015. The average buyer and seller premiums remained the same year over year at 28%.

Revenue from the Gallery Network decreased in the reporting year by 3% or 172k USD, as compared to the previous year from 5,428k USD to 5,257k USD, mostly due to the slight ongoing decline in memberships. Therefore, the anticipated stabilization of member galleries in the network was achieved. The revenue reported in US dollars was marginally affected by the fluctuating exchange rates of euro-generated revenue.

Meanwhile, Auction House Partnerships saw a 6% decline or 26k USD in 2016, largely due to the financial distress of one of our largest clients for this product, Auctionata. Therefore, the expected slight increase in revenue for the Gallery Network could not be realized.

Revenue for the Price Database increased slightly from 7,231k USD in 2015 to 7,254k USD in 2016, which is in line with the expected revenue development for the year. However, the number of subscribers decreased in 2016, due to the price increase in subscriptions made in June 2016. Revenue remained stable for this product.

Advertising revenue decreased in the reporting year as compared to 2015 by 2% or 88k USD, from 3,619k USD to 3,531k USD. This is mainly from artist branding placements, as a result of a decrease in our search engine optimization as we face increased competition from competitors. Advertising revenue on artnet News increased by 14%, however, the anticipated strong revenue growth for the year could not be achieved. Advertising revenue is allocated across segments: artnet News (55%), Galleries (35%), and Price Database (10%).

Changes in Costs and Results

Gross profit decreased slightly to 12,409k USD by 158k USD or by 1% as compared to the previous year (12,567k USD), due to increased cost of personnel.

Sales and marketing expenses in 2016 remained constant at 4,240k USD, as compared to the previous year (4,234k USD). Sales expenses increased by 348k USD, while marketing and artnet News expenses decreased in the same amount, resulting in sales and marketing expenses to remain constant.

Expenses for product development decreased in 2016 by 15% to 3,002k USD, as compared to the previous year (3,518k USD). This decrease is due to the capitalization of development costs for the artnet News redesign and the Gallery Portal tool, in addition to relying less on outsourced technology consultants and more on in-house staff.

General and administrative expenses increased by 12% to 4,396k USD, as compared to the previous year (3,934k USD), due to the hiring of more consultants for the artnet Auctions, Analytics Reports, and Content Team. In addition, there were higher recruiting costs for the Management Team, as well as higher travel expenses.

Development of Segments

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

Segment reporting is based on a multi-level Contribution Margin calculation. Management controls the individual segments based on the Contribution Margin II (with CM II equaling revenue minus direct and indirect variable costs). Therefore, it will be presented below as a segment result. Non-direct allocable expenses are mainly allocated to reportable segments based on the number of employees and revenue per reportable segment. The segment reporting is presented in US dollars only, in accordance with internal communication policy.

The Galleries and Price Database segments once again generated a strong positive Contribution Margin II, wherein the Galleries segment decreased by 18% to 3,466k USD, due to lower revenue, higher personnel, and development expenses, as compared to the previous year. The CM II for the Price Database, the most profitable segment, increased slightly by 3.8% to 4,480k USD, as compared to the previous year. Despite a slight decrease in revenue, this resulted from lower sales and marketing expenses. The artnet News segment generated a negative CM II of -391k USD. However, compared to the negative contribution from the previous year (-807k USD), the CM II improved by 52% due to higher revenue. The Auctions segment generated a small negative CM II of -64k USD, as compared to the previous year (-738k USD), improving significantly by 91% due to higher revenue and lower product development expenses.

Group Profit or Loss

In 2016, the net profit totaled to 701k USD, which was nearly unchanged from the previous year (709k USD). This was positively influenced by the capitalization of the product development expense of 473k USD, which included the redesign of artnet News, the development of the Gallery Portal tool, and the release of artnet AG's provision of 166k USD (150k EUR) for the German court case against a photographer. Foreign exchange losses in the amount of 122k USD contributed negatively to the net profit.

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, 2016. Throughout 2016, the average exchange rate was 0.904 USD/EUR, as compared to 0.901 USD/EUR during the 2015 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, 2016, the rate was 0.950 USD/EUR, as compared to 0.917 USD/EUR on December 31, 2015.

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. Approximately 20% of the Group's revenue is generated in euros and approximately 8% in British pounds.

Because of the fairly constant average exchange price in 2016, the profitability of the Group, in euros, is only slightly affected by foreign currency exchange effects. As a result, the Group's revenue increased from 17,285k EUR in 2015 to 17,386k EUR in 2016, or 0.59%.

Gross profit of sales, when reported in euros was reduced by 108k EUR or 0.95%, and in US dollars by 158k USD or 1.26%, to 11,215k EUR and 12,409k USD, respectively. The Group thus generated a positive operating profit of 644k EUR, as compared to an operating profit of 707k EUR from the previous year, representing a decrease in euros and US dollars by approximately 9%. In 2016 and 2015, net profit in euros amounted to 633k EUR and 639k EUR, respectively.

Financial Position

In 2016, operating cash flow increased significantly to 989k USD, as compared to 235k USD from the previous year. Aside from a lower increase in accounts receivable, this was a result of lower cash outflow of accounts payable and the release of 150k EUR for the German provision. The increase in revenue was due to a higher operational cash flow, which contributed to the development.

In 2016, cash outflow from investing activities amounted to only 508k USD, a significant increase as compared to the previous year (32k USD). This increase is mainly due to investments in intangible assets relating to the redesign of artnet News and the development of the Gallery Portal tool.

The 2016 cash outflow from financing activities decreased to 393k USD, as compared to 526k USD in the previous year, caused by the repayment of liabilities due to finance leases (124k USD) and the shareholder loan (269k USD).

On December 31, 2016, cash and cash equivalents of the Group totaled 1,110k USD, and are therefore comparable to December 31, 2015 (1,084k USD).

In euros, the changes in cash flows from operating, investing, and financing activities are similar to the US dollar figure. Because of the decreased value of the euro and British pound against the US dollar from December 31, 2015 and December 31, 2016, cash and cash equivalents decreased by 61k USD. In euros, the negative currency effect amounts to 31k EUR. Therefore, the liquidity portfolio of the Group expressed in euros, increased from 994k EUR to 1,055k EUR, or by 6.2% as compared to the previous year.

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, 2016, the liquidity per share totaled 0.20 USD (0.19 EUR) based on an average of 5,552,986 shares in circulation, as compared to 0.20 USD (0.18 EUR) on December 31, 2015.

Financial Status

Consolidated total assets amounted to 5,812k USD on December 31, 2016, as compared to 5,436k USD as of December 31, 2015, representing an increase of 7%. This increase is mainly the result from higher intangible assets from accounts receivable.

Accounts receivable increased by 263k USD to 1,650k USD at the reporting date, mainly due to a different composition in longer durations of certain clients.

The Group's non-current assets are primarily held in US dollars. Fixed assets, which are comprised of intangible and tangible assets, increased by 110k USD to 1,376k USD. This increase is mainly due to the capitalization in intangible assets relating to the redesign of artnet News and the development of the Gallery Portal tool in the amount of 473k USD.

The deferred tax assets, in particular those for anticipated future tax benefits coming from tax losses carried forward for Artnet Worldwide Corporation, have been set for the same amount of 884k USD. In 2015, carried-forward losses have benefitted partially from the achievement of a taxable profit of the subsidiary. Therefore, the value of this balance sheet item has been confirmed. For subsequent years, an ongoing increase of taxable profits of Artnet Worldwide Corporation is assumed.

Total current liabilities and provisions decreased by 310k USD, from 4,279k USD to 3,969k USD. This decrease was mainly from the repayment of the shareholder loan and the release of artnet AG's provision of 150k EUR for the German court case against a photographer. For more information regarding the lawsuit, refer to the Risk and Opportunity Report. Following an increase in client agreements with longer maturity, deferred revenue grew from 1,742k USD on December 31, 2015 to 1,938k USD on December 31, 2016.

Meanwhile, long-term liabilities decreased in the reporting year by 31% to 296k USD as of December 31, 2016. This decrease was mainly due to further repayments in liabilities from finance leases and the orderly dissolution of the accrual item for the rent incentive.

The Group's consolidated equity more than doubled to 1,546k USD as of December 31, 2016, as compared to the previous year of 727k USD, resulting from another net profit for the Group and positive foreign currency effects.

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

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

The CEO is satisfied with the performance for the 2016 fiscal year, especially considering how parts of the fine art market have declined. Despite market circumstances, artnet was able to slightly increase its revenue, and overall, maintain its profit from the previous year. The operational cash flow has strongly increased, allowing for accounts payable to be reduced. At the same time, cash and cash equivalents remained mostly unchanged from the previous year, despite significantly higher investments. The consolidated equity was further strengthened following the positive result. Therefore, artnet is significantly stronger and stable for any potential crisis.

Non-Financial Performance Indicators

Employees

As of December 31, 2016 and 2015, there were 113 full-time employees. Additionally, the Group had two part-time employees in 2016 and 2015. In sales and other departments, the Group employed 9 freelancers, as compared to 11 in 2015.

Personnel expenses (excluding social insurance contributions) totaled 12,524k USD, as compared to 12,225k USD in the previous year. While personnel expenses in the costs of sales and sales and marketing increased, personnel expenses in general administrative costs and product development were reduced.

Other Non-financial Performance Indicators

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

For the Gallery Network, monitoring and controlling indicators include the number of contract cancelations and the number of new contracts. In 2016, cancelations increased by approximately 8%, while new contracts sold increased by 55% as compared to the previous year (255 vs. 165). Overall, the number of gallery members decreased by 13, totaling 1,277. The net loss of 13 galleries is an improvement compared to the previous years: 90 in 2015 and 112 in 2014. In addition, the number of inquiries sent to galleries and auction houses through artnet is documented. These inquiries saw a slight decline in 2016 as compared to the previous year, primarily due to the addition of a spam filter that was instated to protect our members.

For the Price Database, the number of different types of subscriptions are closely monitored. In 2016, subscriptions decreased as compared to 2015, due to the price increase with a focus towards annual and higher-priced subscriptions. The amount of results added to the database is also monitored, although these numbers depend on the number of auctions and lots offered worldwide. In 2016, the Price Database exceeded 11 million auction results.

For the monitoring and controlling of artnet Auctions, the number of lots sold and their average price are important indicators. In June 2016, artnet increased the minimum lot price requirement to 3,000 USD. This change decreased the number of lots sold by 11% as compared to 2015, while the average price per lot sold increased by 26%. Another important performance indicator is the number of new registrants, which increased by 22% as compared to 2015.

For the performance measurement 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 viewability (the probability an ad is viewed) are evaluated.

The ongoing monitoring of site traffic is of the greatest importance to artnet as it provides all its services online, with different figures for the existing domains recorded and evaluated daily. In 2016, the total number of visitors to our site increased by 5.3% as compared to the previous year.

3. Disclosure of Takeover Provisions

Composition of Capital Stock

artnet AG's fully paid-in capital stock, as of December 31, 2016, totaled an unchanged 5,631,067 EUR, and comprises 5,631,067 no-par value-bearer shares based on a notional common stock of 1.00 EUR per share. These are registered shares.

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%, as of December 31, 2016.

Preferred Shares

There are no preferred shares.

Voting Rights Monitoring in the Event of Employee Holdings

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

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

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

Authorization of the Executive Board to Issue and Repurchase Shares

Authorized Capital

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

Conditional Capital

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

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

4. Information on Management Practices Applied (§ 289a HGB and § 315 Sec. 5 HGB)

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

5. Remuneration Report

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

5.1 Remuneration of the Management Board

Granted Remuneration, CEO	Jacob Pabst			
EUR	2015	2016		
	Granted	Granted	(Min)	(Max)
Fixed Basic Remuneration	304,088	316,333	316,333	316,333
Remuneration in Kind	10,025	12,040	12,040	12,040
Total	**314,113**	**328,373**	**328,373**	**328,373**
Short-Term Remuneration	–	–	–	316,333
Benefits	–	–	–	–
Total Remuneration	**314,113**	**328,373**	**328,373**	**644,706**

Paid, CEO	Jacob Pabst	
EUR	2015	2016
Fixed Basic Remuneration	304,088	316,333
Remuneration in Kind	10,025	12,040
Total	**314,113**	**328,373**
Short-Term Remuneration	–	–
Benefits	–	–
Total Remuneration	**314,113**	**328,373**

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 Worldwide Corporation. Both the management contract with artnet AG and the employment contract with Artnet Worldwide Corporation were extended without adjustments to the contract on July 1, 2016 for one year, until July 1, 2017.

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: Since July 1, 2015, the fixed remuneration is paid out as a monthly salary of 29,167 USD per month (previously 27,083 USD), or 350k USD per year. In addition, the Company continues to pay health insurance in the amount of 450 EUR per month, and the cost of the Company's group medical plan. In the 2016 fiscal year, the fixed cash remuneration of the Management Board member, Jacob Pabst, totaled 316k EUR (350k USD). In the previous year, the fixed basic remuneration of 27,083 USD was paid monthly for six months until July 1, 2015.

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 should 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 2016, no variable remuneration component was agreed on by the Supervisory Board. The Management Board waived the variable remuneration component in the amount of 25,000 EUR for the 2015 fiscal year.

5.2 Remuneration of the Supervisory Board

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

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

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

6. Risk and Opportunity Report

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

6.1 Risk Report

Risk Management

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

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

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

Early Warning System Ensures Identification of Potential Risks

As a rule, in order to measure, monitor, and control its business growth and risks, the artnet Group uses a management and control system which is mostly based on financial accounting data. The risk inventory, which is developed based on this document, lists the key existing threats and allocates levels of responsibility within the artnet 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 environment. This process is supported by regular analysis of the market and competition.

Dealing with Major Potential Risks

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

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

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

Expectations of the Management Board are defined and documented by regular, targeted agreements. The implemented risk management system ensures that critical information and data will pass directly to the Management.

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

Risks

The Group has identified the following risks:

External Risks

Art Market Economic Trends

artnet is subject to fluctuations in the art market. As the market is constantly impacted by the changing conditions of domestic and global economies, the extent to which these developments will also impact the art market in the future is unclear. In 2016, the art market saw a significant downturn. One of artnet's online auction competitors and customers faced insolvency and bankruptcy in 2017. This shows the increasing competitiveness of the art auction market, as observed over the past two years.

Operating Risks

IT System Infrastructure

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

Product Development

artnet's future success depends on how fast the Group can adjust to technological changes and new industry standards. The Management Board intends to further improve the functionality and reliability of the site, and to launch new products that benefit both existing and potential customers. The Group observes market trends and focuses on product development, reinforcing the importance of the Development Team over the past few years. The recent staff increase will allow artnet to meet its customers' growing needs, and to increase growth potential by launching new products.

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

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

Traffic to the Website

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

Legal Risks

Trademark Laws

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

Copyright Laws

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

Protection of Customer Data

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

Financial Risk

Foreign Currency Fluctuation, Default, and Liquidity Risks

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

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

artnet has no significant concentration of default risk for financial assets because the exposure is averaged over a large number of customers, including individuals and entities dealing in the fine art market. Nevertheless, 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. artnet attempts to counter such risks by insisting on upfront payments from customers whenever possible.

Liquidity risk represents the instance where artnet might be unable to meet deadlines to make due payments. artnet is settling its current costs and investments from existing cash on hand and cash flow operations, and has no lines of credit. In 2016, cash and cash equivalents remained about the same as compared to the previous year.

The March 2015 ruling by the French Court of Appeal, in connection to the alleged violation of copyright by a photographer for high-indemnity payments in the amount of 800k EUR, could eventually lead to counter-liquidity risks if the amount is required to be paid on short notice. artnet has taken legal action against this judgment and appealed this decision. In March 2016, the French Court of Cassation had ruled in favor of the photographer on a procedural aspect, without considering the arguments that artnet formed to challenge the grounds of the ruling from the Court of Appeal. A reregistration of the case depends on a full or partial payment of the compensation of 800k EUR. The provision covers the maximum risk of this trial, including interest. artnet continuously evaluates all options to prevent the enforcement of the ruling in Germany and the United States. Aside from all legal remedies, artnet continues its efforts to achieve a settlement with the photographer. Considering all available options, artnet does not believe a full payment of damages will be required in 2017.

The District Court of Berlin dismissed a case on the same matter in May 2016. Since the court's decision was not appealed, the provision of 150k EUR for the German lawsuit was released as income in the 2016 fiscal year.

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

Other Risks

Key Employees

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

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

6.2 Opportunities

The online art market is characterized by a dynamic environment, with constant opportunities for artnet. The size of the Company and short decision-making processes allow us to respond quickly to changing circumstances and trend reversals, weighing the potential risks. Opportunities may arise from internal or external environments.

The development of the international art market is closely linked to the economy of industrial countries. Changes in economic circumstances will have an impact on our business activities. If the global economy, and, in particular, the European economy, recovers more sustainably than expected, this could have a positive effect on our earnings.

As seen in the 2016 fiscal year for artnet Auctions, the confidence of buyers and sellers on the internet is growing steadily, including making transactions for high-priced artworks. In the coming years, the online sector of the art market is expected to grow by a double-digit percentage rate. If this sector grows faster than currently expected, we could surpass our midterm projections, particularly those in the Auctions segment. This trend could be fostered further by the insolvency of one of artnet' competitors in the Auctions segment.

In 2016, Management decided to start offering scientific valuations and predictive modeling for artworks, allowing quantitative backing to the pricing. This service is of interest to professionals in art, finance, law, and academia. It will be offered using the Analytics Reports product name, while revenue will be allocated to the Price Database segment. Depending of the development time for new reports and risk models, revenue from the service might help the Price Database to surpass its revenue projections for the 2017 fiscal year.

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

Statement from the Management Board Concerning Risks and Opportunities

As compared to 2015, no significant changes have been added to the risks and opportunities in 2016. artnet has prevailed against difficult market circumstances in a highly competitive market. Thanks to a higher consolidated equity and decreased accounts payable, artnet is significantly more robust and stable for potential crisis situations. The provision made concerning the lawsuit with a photographer could still endanger the Group's liquidity. Management believes that a full payment of damages can be avoided in the short- and mid-term.

7. Subsequent Report

There were no material events from December 31, 2016 to March 20, 2017, that could have a significant impact on the Group's financial position or result of operations.

8. Outlook

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

In 2017, artnet is poised to continue its leading position in an ongoing competitive market, taking advantage of the ever-growing popularity of artnet News. The platform brings timely articles, opinion pieces, and trend reports to the art world. In 2016, artnet News was redesigned to improve usability, readability, and advertising revenue. These enhancements will have a positive impact and a strong projected revenue growth for 2017 fiscal year.

The number of subscriptions to the Price Database decreased in 2016, mainly due to an increase in subscription price. However, the revenue remained stable year over year, revealing a shift to long-term and higher-priced subscriptions. Additionally, scientific valuations and predictive modeling for artworks will be offered by Analytics Reports, which will contribute to the Price Database revenue. For 2017, Management expects the Price Database segment to show a moderate increase in revenue, achieved from Analytics Reports and an increase in subscription sales to institutional clients.

The launch of the Gallery Portal in 2017 will provide our members the ability to manage their own inventory, increase the number of inquiries, and create better performing SEO. These changes will help in this competitive market. Management expects the number of memberships to stabilize. Due to an anticipated revenue increase for Auction House Partnerships and an increase of advertising revenue for the Galleries segment, a slight increase in revenue is expected for this segment.

Thanks to the continued acceptance of the online auction market, artnet Auctions will play an even more important role in the art world as higher-priced artworks become more prevalent. Growing interest in online auctions has led to a significant increase in the registrations of new buyers and sellers to our platform in 2016. Management expects to profit from this trend, and forecasts a significant revenue growth for the Auctions segment.

Due to the expectations for individual segments as outlined above, Management predicts an increase in revenue from 20.5 to 21.5 million USD (19.5 to 20.4 million EUR at an estimated exchange price of 0.95 USD/EUR) for the 2017 financial year. For profit after tax, a decrease is expected due to higher than anticipated expense increases because of investments in the Auctions segment—as well as sales and marketing, and product development—of 0.3 to 0.5 million USD (0.3 to 0.5 million EUR). It is thus assumed that the considerable investments made in 2017 will not lead directly to significant increases in earnings, but will enable stronger growth in the medium term. Cash and cash equivalents are expected to be slightly lower as compared to December 31, 2016.

Berlin, March 20, 2017

Jacob Pabst
CEO, artnet AG

Consolidated Financial Statements as of December 31, 2016

artnet AG Consolidated Balance Sheet

As of December 31, 2016

	Notes No.	12/31/2016 USD	12/31/2015 USD	12/31/2016 EUR	12/31/2015 EUR
Assets					
Current Assets					
Cash and Cash Equivalents	3	1,110,281	1,083,526	1,055,100	993,593
Trade Receivables	4	1,649,657	1,387,025	1,567,669	1,271,902
Other Current Assets	5	404,742	426,504	384,626	391,104
Total Current Assets		**3,164,680**	**2,897,055**	**3,007,395**	**2,656,599**
Non-Current Assets					
Property, Plant, and Equipment	6	531,244	712,176	504,841	653,065
Intangible Assets	7	844,925	553,800	802,932	507,835
Security Deposits		386,511	388,361	367,301	356,127
Deferred Tax Assets	8	884,432	884,432	840,476	811,024
Total Non-Current Assets		**2,647,112**	**2,538,769**	**2,515,550**	**2,328,051**
Total Assets		**5,811,792**	**5,435,824**	**5,522,945**	**4,984,650**
Equity and Liabilities					
Current Liabilities					
Accounts Payable	9	367,131	299,425	348,885	274,573
Accrued Expenses and Other Liabilities	10	635,993	749,348	604,384	687,152
Provisions	11	894,454	1,035,987	850,000	950,000
Short-Term Liabilities from Finance Leases	12	76,735	131,362	72,921	120,459
Deferred Revenue	14	1,938,181	1,742,160	1,841,853	1,597,561
Loans	27	–	320,961	–	294,321
Other Short-Term Liabilities	18	56,720	–	53,901	–
Total Current Liabilities		**3,969,214**	**4,279,243**	**3,771,944**	**3,924,066**
Long-Term Liabilities					
Office Rent Amortization	13	284,351	330,141	270,219	302,739
Long-Term Liabilities from Finance Leases	12	12,112	81,312	11,510	74,563
Other Long-Term Liabilities	18	–	17,834	–	16,534
Total Long-Term Liabilities		**296,463**	**429,287**	**281,729**	**393,656**
Total Liabilities		**4,265,677**	**4,708,530**	**4,053,673**	**4,317,722**
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	52,404,326	51,015,723	50,997,910
Accumulated Deficit		(58,053,678)	(58,762,833)	(56,277,412)	(56,916,361)
Current Net Profit		700,601	709,155	633,207	638,949
Foreign Currency Translation	15	802,949	704,375	731,112	579,788
Total Shareholders' Equity		**1,546,115**	**727,294**	**1,469,272**	**666,928**
Total Liabilities and Shareholders' Equity		**5,811,792**	**5,435,824**	**5,522,945**	**4,984,650**

artnet AG Consolidated Income Statement

For the Fiscal Year from January 1 to December 31, 2016

	Notes No.	2016 USD	2015 USD	2016 EUR	2015 EUR
Revenue					
Gallery Network		5,256,557	5,428,160	4,750,915	4,890,772
Price Database		7,254,203	7,231,242	6,556,403	6,515,349
Advertising		3,530,506	3,618,644	3,190,898	3,260,398
Auctions		3,195,297	2,905,750	2,887,933	2,618,081
Total Revenue	24	**19,236,563**	**19,183,796**	**17,386,149**	**17,284,600**
Cost of Sales		6,827,662	6,616,792	6,170,892	5,961,730
Gross Profit		**12,408,901**	**12,567,004**	**11,215,257**	**11,322,870**
Operating Expenses					
Sales and Marketing		4,239,966	4,233,544	3,832,113	3,814,423
General and Administrative		4,395,507	3,933,670	3,972,692	3,544,237
Product Development		3,002,293	3,518,373	2,713,495	3,170,054
Non-Cash Compensation	18	58,532	96,221	52,902	86,695
Total Operating Expenses		**11,696,298**	**11,781,808**	**10,571,202**	**10,615,409**
Operating Income		**712,603**	**785,196**	**644,055**	**707,461**
Interest Expenses	22	11,403	32,037	10,306	28,865
Interest Income	22	1,462	820	1,321	739
Other Income/(Expenses)	22	(122,411)	(9,150)	(110,636)	(8,244)
Provision for Litigation Risks	22	165,965	–	150,000	–
Earnings Before Taxes		**746,216**	**744,829**	**674,434**	**671,091**
Income Taxes	8	(45,615)	(35,674)	(41,227)	(32,142)
Net Profit		**700,601**	**709,155**	**633,207**	**638,949**
Other Comprehensive Income					
OCI Recycled: Differences from Foreign Currency Translation		98,574	211,258	151,324	180,689
Total Comprehensive Income		**799,175**	**920,413**	**784,531**	**819,638**
Result per Share					
Basic and Diluted	21	0.13	0.13	0.12	0.12

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

For the Fiscal Year from January 1 to December 31, 2016

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
Balance as of 12/31/2014	**5,631,067**	**5,941,512**	**(269,241)**	**52,325,939**	**(58,762,833)**	**493,117**	**(271,506)**
Net Income	–	–	–	–	709,155	211,258	920,413
Remuneration from Stock Options	–	–	–	78,387	–	–	78,387
Balance as of 12/31/2015	**5,631,067**	**5,941,512**	**(269,241)**	**52,404,326**	**(58,053,678)**	**704,375**	**727,294**
Net Income	–	–	–	–	700,601	98,574	799,175
Remuneration from Stock Options	–	–	–	19,646	–	–	19,646
Balance as of 12/31/2016	**5,631,067**	**5,941,512**	**(269,241)**	**52,423,972**	**(57,353,077)**	**802,949**	**1,546,115**

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

For the Fiscal Year from January 1 to December 31, 2016

	Common Stock						
	Issued Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation	Total
Balance as of 12/31/2014	**5,631,067**	**5,631,067**	**(264,425)**	**50,927,279**	**(56,916,361)**	**399,099**	**(223,341)**
Net Income	–	–	–	–	638,949	180,689	819,638
Remuneration from Stock Options	–	–	–	70,631	–	–	70,631
Balance as of 12/31/2015	**5,631,067**	**5,631,067**	**(264,425)**	**50,997,910**	**(56,277,412)**	**579,788**	**666,928**
Net Income	–	–	–	–	633,207	151,324	784,531
Remuneration from Stock Options	–	–	–	17,813	–	–	17,813
Balance as of 12/31/2016	**5,631,067**	**5,631,067**	**(264,425)**	**51,015,723**	**(55,644,205)**	**731,112**	**1,469,272**

artnet AG Consolidated Statement of Cash Flows

For the Fiscal Year/Period from January 1 to December 31, 2016

	Notes No.	2016 USD	2015 USD	2016 EUR	2015 EUR
Cash Flow from Operating Activities					
Net Profit		**700,601**	**709,155**	**633,207**	**638,949**
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities					
Depreciation and Amortization	6,7,22	396,869	531,468	358,693	478,852
Impairments/Write-Offs for Receivables	4	240,639	301,093	217,491	271,285
Non-Cash Compensation from Stock Options	18	19,646	78,387	17,756	70,627
Other Non-Cash Transactions		6,308	57,898	41,744	52,166
Changes in Operating Assets and Liabilities					
Trade Receivables	4	(503,271)	(688,196)	(454,860)	(620,065)
Other Current Assets	5	21,762	(72,761)	19,669	(65,558)
Security Deposits		1,850	484	1,672	436
Accounts Payable	9	67,706	(421,335)	61,193	(379,623)
Provisions	11	–	(120,645)	–	(108,701)
Accrued Expenses and Tax Liabilities	10	(159,145)	(2,319)	(143,836)	(2,090)
Deferred Revenue	14	196,021	(138,722)	177,165	(124,989)
Total Adjustments		**288,385**	**(474,648)**	**296,687**	**(427,660)**
Cash Flow Provided by Operating Activities		**988,986**	**234,507**	**929,894**	**211,289**
Cash Flow from Investing Activities					
Purchase of Property and Equipment	6,12	(34,299)	(24,695)	(32,595)	(22,645)
Purchase and Development of Intangible Assets	7,12	(473,687)	(7,616)	(450,145)	(6,983)
Cash Flow Used in Investing Activities		**(507,986)**	**(32,310)**	**(482,740)**	**(29,628)**
Cash Flow from Financing Activities					
Repayment of Finance Leases	12	(123,827)	(275,786)	(111,915)	(248,483)
Loans Redeemed	27	(269,475)	(249,723)	(243,554)	(225,000)
Cash Flow Used in Financing Activities		**(393,302)**	**(525,509)**	**(355,469)**	**(473,483)**
Effects of Exchange Rate Changes on Cash		**(60,943)**	**(29,001)**	**(30,178)**	**104,294**
Changes in Cash and Cash Equivalents		**26,755**	**(352,313)**	**61,507**	**(187,528)**
Cash and Cash Equivalents—Start of Year	3	**1,083,526**	**1,435,839**	**993,593**	**1,181,121**
Cash and Cash Equivalents—End of Year	3	**1,110,281**	**1,083,526**	**1,055,100**	**993,593**
Supplemental Disclosures of Cash Flow					
Income Tax Receipts/(Payments)	8	(20,873)	(20,873)	(18,865)	(18,807)
Interest Payments	22	8,229	(14,293)	7,438	(12,878)
Interest Receipts	22	1,462	820	1,321	739

Notes to the Consolidated Financial Statements 2016

Table of Contents

1. Corporate Information and Statement of Compliance

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

artnet AG holds 100% of the shares in Artnet Worldwide Corporation (“Artnet Corp.”), which is located in New York, NY, USA. Artnet Corp. holds 100% of the shares in artnet UK Ltd. artnet France Sarl, the second wholly owned subsidiary, was liquidated in September 2016. artnet AG and Artnet Corp., together with the latter’s wholly owned subsidiaries, are referred to as the “artnet Group” or the “Group.”

The Group’s goal is to provide art collectors, galleries, publishers, auction houses, and art enthusiasts with a website to research artists and art prices. 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 for buying and selling art. artnet News, the 24-hour newswire, informs users about the events, trends, and people shaping the global art market.

Applying § 315a of the German Commercial Code (HGB), accompanying the consolidated financial statements as of December 31, 2016, financial statements for the parent and subsidiary companies were prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations of the International Accounting Standards Board (IASB) effective within the EU. The consolidated financial statements were authorized for issuance by the CEO on March 20, 2017.

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.

Due to rounding, amounts presented may not add up precisely.

The currency of the primary economic environment in which artnet 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, 2016. The principal accounting policies adopted are set out below.

The consolidated financial statements as of December 31, 2016 have been prepared under the assumption that the Company will continue operations, as the Company assumes that the due payment obligations in 2017 can be fulfilled. Due to planned measures against the enforcement of the French ruling, artnet assumes no full cash outflows for the claimed damage. The potential liquidity risk related to ongoing litigations on the subject of copyright infringement is explained in detail in the liquidity risk section in the Group Management Report.

Basis of Consolidation and Consolidated Companies

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

On February 23, 1999, artnet AG entered into a transaction with Artnet Corp., which was treated as a recapitalization of Artnet

Corp., with Artnet Corp. as the acquirer of artnet AG. The Company accounted for the business combination of artnet AG and Artnet Corp. as a reverse acquisition in accordance with IFRS 2, B1 et seq.

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

The active business operations of artnet France Sarl, a wholly owned subsidiary of Artnet Corp., was closed in June 2012 and was liquidated in 2016.

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

Reporting Period

The consolidated financial statements were prepared for the reporting period, from January 1, 2016 through December 31, 2016. The financial year for all Group companies coincides with the calendar year.

Accounting Principles of General Importance for artnet

artnet has reviewed its notes in accordance to the specifications of IASB on essentiality and relevance. The following section about the accounting principles was shortened significantly. Further explanations to individual balance sheet items can be found in the notes items and explanations with less relevance have been removed.

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, tangible and intangible assets, as well as intangible assets not yet available for use, are subject to an annual impairment test. Recoverability of assets is measured by the comparison of the carrying amount of the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value minus the cost to sell. In the event that the asset does not generate cash flows independent from other assets, the impairment test is not performed at an individual asset level; instead, it is performed at the level of the cash-generating unit to which the asset belongs. If the recoverable amount of the cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense as soon as it occurs. The asset's value in use, either at an independent level or at a cash-generating unit level, is measured by discounting the asset's estimated future cash flows. If there is an indication that the reasons that caused the impairment loss no longer exist, the Group will assess the need to reverse all or a portion of the impairment, as long as it does not exceed the original carrying amount. In 2016 and 2015, no impairment of tangible or intangible assets has been recorded.

Foreign Currency Translation and Business Transactions

The currency of the primary economic environment in which the artnet 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 artnet 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	
	12/31/2016	12/31/2015	12/31/2016	12/31/2016
Current Rate Year End	0.950	0.917	0.811	0.676
Average Rate for the Year	0.904	0.901	0.741	0.654

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 2016 fiscal year, did not have any material impact on the Company's consolidated financial statements.

New Features and Changes in Accounting Standards

Amendments of Standards	Coming into Effect	Date of EU Endorsement
Amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities – Applying the Consolidation Exception	1/1/2016	9/22/2016
Annual Improvements to IFRS Standards 2010–2012 Cycle	2/1/2015	12/17/2014
Amendments to IAS 19: Defined Benefit Plans: Employee Distribution	2/1/2015	12/17/2014
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operation	1/1/2016	11/24/2015
Amendments to IAS 16, IAS 38: Clarifications of Acceptable Methods of Depreciation and Amortization	1/1/2016	12/2/2015
Amendments to IAS 16, IAS 41: Bearer plants	1/1/2016	11/23/2015
Annual Improvements to IFRS Standards 2012–2014 Cycle	1/1/2016	12/15/2015
Amendments to IAS 1: Disclosure Initiative	1/1/2016	12/18/2015
Amendments to IAS 27: Equity Method in Separate Financial Statements	1/1/2016	12/18/2015

IAS 1 Amendments "Disclosure Initiative"

Amendments to IAS 1 "Presentation of Financial Statements" are part of the Disclosure Initiative of IASB, which is composed of several subprojects. These include clarification on the following:

- The assessment of the materiality of the financial statement
- The presentation of additional financial statement items in the balance sheet and in the statement of profit or loss
- The structure of the notes and the presentation of the relevant accounting policies

artnet has already complied to the emphasis of the materiality and the relevance of the notes for the consolidated statements 2015, and checked the notes against these criteria. This has led to changes in the presentation of the accounting principles in the balance sheet items and to a shortening of details with limited relevance in the notes.

Not Yet Applied New or Revised Standards and Interpretations

Future Features and Changes in Accounting

New Standards or Interpretations		Issued	Date of EU Endorsement
IFRS 9	Financial Instruments	1/1/2018	11/22/2016
IFRS 15	Revenue from Contracts with Customers	1/1/2017	9/22/2016
IFRS 16	Leases	1/1/2019	Q4 2017
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	Q3 2017
Amendments of Standards			
Clarifications to IFRS 15: Revenue from Contracts with Customers		1/1/2018	Q1 2017
Amendments to IFRS 10, IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Postponed	Postponed
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		1/1/2017	Q2 2017
Amendments to IAS 7: Cash-flow-Statement		1/1/2017	Q2 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions		1/1/2018	Q3 2017
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts		1/1/2018	Q3 2017
Annual Improvements to IFRS Standards 2014–2016 Cycle		1/1/2018	Q3 2017
Amendment to IAS 40: Transfers of Investment Property		1/1/2018	Q3 2017

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

IFRS 15 "Revenue from Contracts with Customers"

The standard IFRS 15 "Revenue from Contracts with Customers" is effective for fiscal years beginning on or after January 1, 2018. The new standard reflects the recognition of revenue with the transfer of confirmed goods or services for customers with the expected amount of what the Company will get in exchange for these goods or services. Revenue will be recognized when the customer receives the authority to dispose of these goods or services. IFRS 15 regulates also the disclosure of existing commitments and received compensatory measures. Conceptually, revenue recognition is based on a five-step model. First, the contract has to be identified, which is required for the new standard IFRS 15. Performance obligations in the contract also must be identified. In a next step, the transaction price is determined. Then, the transaction price is allocated to the performance obligations in the contract. Finally, revenue is recognized. The Company currently investigates the effects of the application of IFRS 15 on its consolidated financial statements. The identification of contracts with customers and contractual arrangements is the main concern, as these affect the revenue recognition. As of now, no significant impact on revenue recognition and deferred revenue for the Group are expected from the first-time application.

IFRS 16 “Lease”

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

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

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

Therefore, the leases for the office spaces in New York and Berlin must be recorded in the financial statements. Since the IFRS 16 standard will only apply in distant future, effects of potential consequences will be estimated using undiscounted values in this financial report only.

Without taking interest effects into account, total assets would increase by 6,193k USD, if the IFRS 16 standard was applied as of December 31, 2016. Based on the balance sheet dated as of December 31, 2016, this would lead to a significant reduction of the equity ratio from 26.6% to 12.54%. Additionally, write-offs and interests paid need to be recorded instead of operating expenditure, resulting in a release of the operating income. Within the cash flow statement, obligations from leases will be shifted from the cash flow from operating activities to the cash flow from financing activities.

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

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

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

4. Accounts Receivable

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

Accounts receivable consist of the following:

	12/31/2016 EUR	12/31/2015 EUR
Gross Accounts Receivable	1,892,393	1,517,751
Less: Allowance for Value Adjustment Accounts Receivable	(324,724)	(245,849)
Receivables After Impairment	**1,567,669**	**1,271,902**

All accounts receivable are due within one year.

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

Receivables by maturity:

	12/31/2016 EUR	12/31/2015 EUR
Overdue but not Impaired Receivables		
Between 0 and 60 Days	1,128,435	1,037,953
Carrying Amounts of Impaired Receivables		
Overdue Between 61 and 90 Days	239,633	105,825
Overdue More than 90 Days	199,600	128,123
Total Overdue and Impaired Receivables	439,234	233,949
Receivables After Impairment	**1,567,669**	**1,271,902**

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

Allowance for doubtful accounts developed as follows:

	12/31/2016 EUR	12/31/2015 EUR
Balance at the Beginning of the Fiscal Year	245,849	199,490
Bad Debt Expenses for the Year	262,679	298,880
Write-Off of Bad Debts	(206,243)	(280,721)
Currency Exchange Differences	22,439	28,200
Balance at the End of the Fiscal Year	**324,724**	**245,849**

5. Other Current Assets

Other current assets consist mainly of designated restricted cash balances for defined contribution retirement plans and health insurance plans in the amount of 168,874 EUR (2015: 164,668 EUR).

For software maintenance and insurance deposits, prepayments have been made in the amount of 182,768 EUR (2015: 199,607 EUR). In addition, there are claims on tax payments in Germany and the United Kingdom amounting to 27,684 EUR (2015: 22,095 EUR).

6. Tangible Assets

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

Tangible Assets in the 2016 and 2015 fiscal years developed as follows:

	Computer and Hardware EUR	Operating and Office Equipment EUR	Leasehold Improvement EUR	Total EUR
Acquisition Costs				
As of December 31, 2014	**402,442**	**706,098**	**427,816**	**1,536,357**
Exchange Differences	50,823	77,218	40,630	168,671
Disposals	(153,847)	(179,322)	–	(333,169)
Additions	195,971	–	–	195,971
As of December 31, 2015	**495,390**	**603,994**	**468,446**	**1,567,830**
Exchange Differences	17,448	20,735	14,332	52,515
Disposals	(255,620)	(93,889)	(73,766)	(423,276)
Additions	32,093	502	–	32,595
As of December 31, 2016	**289,311**	**531,342**	**409,012**	**1,229,665**
Depreciation				
As of December 31, 2014	**341,967**	**418,662**	**139,745**	**900,374**
Exchange Differences	45,774	46,403	11,524	103,700
Disposals	(153,847)	(179,322)	–	(333,169)
Depreciation for the Period	96,654	79,830	67,376	243,860
As of December 31, 2015	**330,548**	**365,573**	**218,644**	**914,765**
Exchange Differences	13,557	15,953	7,393	36,903
Disposals	(252,880)	(93,890)	(73,767)	(420,536)
Depreciation for the Period	84,568	70,044	39,081	193,693
As of December 31, 2016	**175,793**	**357,680**	**191,351**	**724,824**
Carrying Amount				
As of December 31, 2014	**60,475**	**287,437**	**288,071**	**635,982**
Includes: Finance Leases	24,308	205,925	–	230,234
As of December 31, 2015	**164,842**	**238,421**	**249,803**	**653,065**
Includes: Finance Leases	126,810	177,582	–	304,392
As of December 31, 2016	**113,518**	**173,661**	**217,661**	**504,841**
Includes: Finance Leases	71,542	130,168	–	201,710

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

7. Intangible Assets

Intangible assets are comprised of purchased 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. Costs related to the research, planning, and post-implementation phases of the Group's websites—such as minor enhancements and maintenance or development efforts—are expensed as incurred. Maintenance expenses which neither enhance the value of an asset nor prolong the useful life are recorded as expenses. Costs incurred in the development phase are capitalized if:

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

The market condition is substantiated, as only expenditures related to website development projects and material expansions are capitalized if such improvements to the website are expected to generate future revenues or cost savings.

In 2016, 449k EUR of the total cost for the redesign of artnet News and the development of the Gallery Portal tool (a content management system which will be used by all Gallery Network members) were capitalized. The artnet News redesign improved usability, readability, and advertising revenue. The Gallery Portal allows members to manage their own inventory on their member site, with the goal of increasing the number of artworks added to the site, a rise in inquiries, and better-performing SEO. Following the completion of these projects, presumably during the first quarter of 2017, these will be capitalized for three years.

The amortization expenses for intangible assets are included in the cost of sales. Research costs in the amount of 2,713k EUR (2015: 3,170k EUR) were recorded as a development expense in the period in which they were generated.

As of December 31, 2016, the Group did not have any material contractual obligations for the acquisition of intangible assets.

Intangible assets in the 2015 and 2014 fiscal years developed as follows:

	Development Costs EUR	Software EUR	Total EUR
Acquisition Costs			
As of December 31, 2014	**2,100,690**	**376,388**	**2,477,077**
Exchange Differences	241,071	43,193	284,265
Disposals	–	(48,389)	(48,389)
Additions	–	23,518	23,518
As of December 31, 2015	**2,341,761**	**394,710**	**2,736,470**
Exchange Differences	85,039	14,333	99,373
Disposals	–	(235,049)	(235,049)
Additions	449,136	1,009	450,144
As of December 31, 2016	**2,875,935**	**175,003**	**3,050,938**
Amortization			
As of December 31, 2014	**1,539,031**	**289,041**	**1,828,072**
Exchange Differences	179,186	34,772	213,959
Disposals	–	(48,389)	(48,389)
Amortization for the Period	144,750	90,244	234,994
As of December 31, 2015	**1,862,968**	**365,668**	**2,228,636**
Exchange Differences	75,572	14,360	89,932
Disposals	–	(235,049)	(235,049)
Amortization for the Period	144,750	19,737	164,487
As of December 31, 2016	**2,083,290**	**164,716**	**2,248,006**
Carrying Amount			
As of December 31, 2014	**561,659**	**87,346**	**649,005**
Includes: Finance Leases	–	72,535	72,535
As of December 31, 2015	**478,793**	**29,042**	**507,835**
Includes: Finance Leases	–	17,579	17,579
As of December 31, 2016	**792,645**	**10,287**	**802,932**
Includes: Finance Leases	–	5,711	5,711

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:

	2016 k EUR	2015 k EUR
Current Income Taxes		
Income Tax Payments in France and Great Britain	–	1
US Corporate Tax (Federal, State) and Income Tax Expenses of Other Consolidated Companies	41	32
Tax Refunds from Previous Years	–	–
Total Current Income Taxes	41	32
Deferred Tax		
Change in Deferred Tax Assets Based on Loss Carryforwards	(227)	(83)
Temporary Differences	198	–
Exchange Rate Differences	29	83
Total Deferred Taxes	–	–
Total Income Taxes	**41**	**32**

Due to its tax loss carryforwards, Artnet Worldwide Corporation only has to pay the alternative minimum corporation tax in the United States.

Deferred Tax Asset

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

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

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

As of the 2016 balance sheet date, Artnet Corp. has a total of 23.5 million EUR (24.7 million USD) in carried-forward tax losses, available for offset against future profits. As of December 31, 2015, these carried-forward tax losses amounted to 24.5 million EUR (26.7 million USD). In the 2016 fiscal year, the carried-forward tax loss in the amount of 2,000k USD was utilized by achieving a taxable profit. A deferred tax asset of 840k EUR (2015: 811k EUR) after deducting passive deferred tax assets is recognized in the financial statements for the existing carried-forward tax losses of Artnet Corp. This increase in euros, as compared to last year, is due solely to currency conversion—the capitalized amount in US dollars remained at 884k USD after deducting passive deferred tax assets. The tax rate used is unchanged at 43%, and represents the average income tax rate of Artnet Corp. The recognition of deferred tax assets on carried-forward tax losses is based on a three-year budget. Carried-forward tax losses can be used over a period of 20 years and will expire in 2019 in the amount of 6.3 million EUR (6.6 million USD). By 2020, the amount will total 13.9 million EUR (14.7 million USD). Of the remaining unused carried-forward tax losses of Artnet Corp., a major part will expire in 2021 and 2022. The remaining unused carried-forward tax losses will begin to expire in 2032.

artnet AG has additional carried-forward tax losses available to offset corporation and commercial tax in the amount of 35.6 million EUR (2015: 34.9 million EUR). In the current organizational structure of the artnet Group, these tax loss carryforwards cannot be used under the German tax law.

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

	Deferred Tax Assets 12/31/2016 k EUR	Deferred Tax Assets 12/31/2015 k EUR
Deferred Tax Assets	1,030	811
Fixed Assets	(198)	(6)
Accounts Receivable	8	6
Total	**840**	**811**

Tax Rate Reconciliation

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

The tax rate of 43% (2015: 43%) is the average income tax rate of the Artnet Corp., because Artnet Corp. as the main operating entity generates the taxable income of the Group.

	2016 k EUR	2015 k EUR
Earnings Before Tax from Continued Operations	674	671
Expected Income Tax Expense/(Benefit)—Tax Rate 43%	290	289
Non-Deductible Expenses and Other Effects	152	(66)
Tax Refunds from Previous Years	(776)	(469)
Non-Recognition of Deferred Tax Assets of Loss Carryforwards in Germany and the United States, and Tax Rate Differences	375	278
Adjustments for Deferred Tax Assets for Tax Loss Carryforwards from Previous Years	41	32

9. Accounts Payable

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

10. Accruals and Other Liabilities

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

	12/31/2016 EUR	12/31/2015 EUR
Outstanding Invoices	290,547	185,816
401(k) Payments (Retirement provisions in the USA)	116,096	124,563
Bonus Payments	110,788	182,483
Accrued Vacation Pay	15,257	11,899
Taxes and Social Security	3,441	82,266
Taxes	–	11,531
Other	68,254	88,594
Total	**604,384**	**687,152**

11. Provisions

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

Provisions in the amount of 850k EUR (2015: 950k EUR) were recorded for possible indemnity payments due to accusations of copyright infringement by a photographer, granted in March 2015 by the Paris Court of Appeal. This provision reflects the inherent risk to artnet in consideration of all available information, and covers the alleged claim for damages by the photographer, including interest, and related potential legal and consulting fees.

Regardless of the awaited judgments, artnet has tried to achieve an amicable settlement with the photographer in question. The provision covers the maximum risk of this trial, including interest. artnet continuously evaluates all options to prevent the enforcement of the ruling in Germany and the United States. In 2016, the provision was increased by 50k USD to reflect interest. Aside from all legal remedies, artnet continues its efforts to achieve a settlement with the photographer and considers all available options. artnet does not believe a full payment of damages will be required in 2017.

The District Court of Berlin in the same matter dismissed the case in May 2016. Since the court's decision was not appealed, the provision amounting 150k EUR for the German lawsuit was released.

12. Liabilities from Finance Leases

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

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

12/31/2016	Total EUR	< 1 year EUR	> 1–3 years EUR
Present Value of Minimum Lease Payments	84,431	72,921	11,510
Interest Portion	211	211	–
Minimum Lease Payments	**84,643**	**73,133**	**11,510**

12/31/2015	Total EUR	< 1 year EUR	> 1–3 years EUR
Present Value of Minimum Lease Payments	195,022	120,459	74,563
Interest Portion	19,448	12,420	7,028
Minimum Lease Payments	**214,470**	**132,879**	**81,591**

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

13. Deferred Rent Incentive

Non-current liabilities from deferrals for the rent incentive relate to the advantages from rent-free periods in the amount of 270k EUR (2015: 303k EUR) for the office premises rented in New York as of December 31, 2016 until April 2023. Deferrals in US dollars decreased as scheduled by 46k USD to 284k USD. Expressed in euros, the decrease is lower due to currency exchange rates changes.

14. Deferred Revenue and Revenue Recognition

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

Revenues are measured at the fair value of the received or to be received consideration, minus any discounts, VAT, and other sales taxes.

Customers make advanced payments for certain service contracts with artnet. These prepaid amounts are realized as revenue only when artnet provides the agreed service. artnet records these amounts as liabilities from deferred revenue as of December 31, 2016, amounting to 1,842k EUR as compared to 1,598k EUR in the previous year.

15. Equity

	12/31/2016	12/31/2015
Authorized No-Par Value Shares (accounting par value 1.00 EUR per share)	5,631,067	5,631,067
Issued and Fully-Paid No-Par Value Shares (accounting par value 1.00 EUR per share)	5,552,986	5,552,986
Treasury No-Par Value Shares	78,081	78,081

artnet AG has only restricted shares.

Authorized Capital

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

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

Conditional Capital

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

2009/I expired in 2014. No shares have been issued from it.

In 2009, 2010, and 2014, 398,907 stock options were granted to the Management and employees of the subsidiary Artnet Corp. from the 2009 stock option program. As of now, none of these options has been exercised. All of these 398,907 issued share options can increase the conditional capital (conditional capital 2009/I) if they are exercised.

Treasury Shares

As of December 31, 2016, 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's treasury stock.

The Shareholders' Meeting authorizing to acquire up to a 10% stake in the current share capital until the end of July 13, 2015, expired last year without making use of the authorization.

Foreign Currency Adjustment Items

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

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

16. Capital Management

The capital structure of the artnet Group consists essentially of current liabilities from current business transactions, long-term finance lease obligations, and equity. Equity is attributable to the shareholders of the parent company, and consists primarily of issued shares, capital reserve, and the accumulated results of the Group. In addition, Artnet Corp. entered into various finance lease arrangements in the fiscal year and in the previous years, which will require payments over the next two years. Artnet Corp. also entered into an operating lease agreement for new office space in 2012, which will require payment over the next six years. All other business activities are currently financed by the cash balance and the operating cash flows.

17. Financial Instruments and Risks Arising from Financial Instruments

Categories of Financial Instruments

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

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

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

In the 2016 and 2015 business years, the artnet 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 2016 EUR	Net Results 2015 EUR
Loans and Receivables	(392,533)	(366,439)
Financial Liabilities	3,822	(8,645)
Total	**(388,711)**	**(375,084)**

The components of the net results are gains or losses from exchange rate differences, and bad debt expenses for doubtful accounts and write-offs. Interest expenses in the amount of 8k EUR (2015: 28k EUR) are included in the net result of financial liabilities.

Credit Risk

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

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

artnet has no significant concentration of default risk because 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. artnet 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 artnet 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 artnet 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 2017 fiscal year, based mainly on planned sales increases and the assumption that a potential payment obligation related to the copyright infringement litigation in France will not occur. The expected positive operating cash flow is based mainly on anticipated revenue increase. If revenue does not increase as expected, planned investments and product developments may be rescheduled, or their implementation may be extended.

The artnet Group faces no material interest-rate risk. The Group's companies have several interest-bearing finance lease agreements in the amount of 84k EUR (2015: 195k EUR). Other current liabilities and accrued expenses have a remaining term of less than one year.

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

12/31/2016	Carrying Amount EUR	Gross Cash Flow EUR	Gross Cash Flow EUR	Gross Cash Flow EUR
		Total	< 1 Year	> 1 Year
Liabilities at Amortized Costs	639,432	639,432	639,432	–
Liabilities from Finance Leases	84,431	84,643	73,133	11,510

12/31/2015	Carrying Amount EUR	Gross Cash Flow EUR	Gross Cash Flow EUR	Gross Cash Flow EUR
		Total	< 1 Year	> 1 Year
Liabilities at Amortized Costs	754,710	761,235	761,235	–
Liabilities from Finance Leases	195,022	214,470	132,879	81,591

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 and accrued liabilities will lead to a cash outflow in the 2017 fiscal year. Exceptions to this include the current provisions for legal copy write disputes in France in the amount of 850k EUR (2015: 950k EUR) for the alleged copyright infringement of a photographer. Aside from all legal remedies, artnet continues its efforts to achieve a settlement with the photographer. Considering all available options, artnet does not believe a full payment of damages will be required in 2017.

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 artnet Group controls these currency exchange risks by invoicing its European customers in euros, and using these cash 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 artnet 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 artnet Group from intercompany euro claims coming from financing the parent company artnet AG, which is located in the Europe, and the operating subsidiary Artnet Corp., which is located in the United States, and for euro bank stocks for Artnet Corp.

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

Foreign Currency	Financial Assets		Financial Liabilities	
	12/31/2016 k EUR	12/31/2015 k EUR	12/31/2016 k EUR	12/31/2015 k EUR
EUR	898	537	42	18
GBP	433	268	1	2

Additionally, the intragroup receivables validating in euros from Artnet Corp. against artnet AG amounted to 2,243k EUR as of December 31, 2016 (2015: 2,104k EUR). This bears a theoretical currency risk for Artnet Corp., which will not be recognized in profit or loss in the consolidated financial statements. To minimize this risk, Artnet Corp. converted existing current inter-company receivables of artnet AG in the amount of 1,500k EUR into a long-term intercompany loan in the 2015 fiscal year. A settlement for this this loan is neither planned nor likely to occur in the foreseeable future. The intercompany loan qualifies as a net investment according to IAS 21.15. Accordingly, exchange differences on the euro-validating loan will be recognized in other comprehensive income, and will thus be accumulated in a separate component of equity until full or partial disposal of artnet AG ownership interest in Artnet Corp. In 2016 and 2015, currency exchange effects in the amount of 52k and 226k EUR, respectively, were recognized as net investment in other comprehensive income, and reduced the equity. In total the amounts recorded directly in equity amount to 278k EUR as of December 31, 2016 (2015: 226k 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 12/31/2016 k EUR	EUR 12/31/2015 k EUR	GBP 12/31/2016 k EUR	GBP 12/31/2015 k EUR
+10%				
Result	(137)	(89)	(34)	(16)
Equity	91	69	(1)	(2)
-10%				
Result	167	109	41	20
Equity	(111)	(84)	1	2

As compared to December 31, 2015 (0.917 USD/EUR), the US dollar has increased against the euro as of December 31, 2016 (0.904 USD/EUR) by 1.4%.

Interest Rate Risk

The finance leases of the Group bear a fixed interest rate. As of December 31, 2016, there are no liabilities with a floating rate. As of December 31, 2015 the shareholder's loan had an interest rate floor. Therefore, the artnet 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 executive management and to certain employees of Artnet Corp. The equity-settled share-based payments are 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, is 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 is measured using the binomial model.

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

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

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

As of December 31, 2016 the number of outstanding options remained at 398,907. As in the previous year, the outstanding options for 2009 and 2010 could not be exercised, as the market price for artnet shares were significantly below the respective exercise price. The options granted in 2014 were not allowed to be used until March 31, 2016. The options were not exercised in 2016. The outstanding options on December 31, 2016, had a weighted average remaining term of 3.91 years (2015: 4.91 years).

The fair value of the stock options was calculated in 2009, 2010, and 2014 from the date on which the options were granted based on the binomial model, on the basis of the assumptions of the chart above.

The 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; they expire 10 years after the grant date. Rights may not be exercised in the period from two weeks before the end of the quarter until the end of the first trading day after publication of the quarterly results, and also may not be exercised in the period from two weeks before the end of the fiscal year until the end of the first trading day after publication of the results for the past fiscal year.

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

Stock Appreciation Rights (SAR)

In 2015, Artnet Corp. launched a “Stock Appreciation Rights Program” for certain executives. As part of this program, participating employees receive a certain number of rights to benefit from artnet AG’s share price increase. The participation rights grant solely a right to cash settlement, not to artnet AG’s shares. The assessment of the Stock Appreciation Rights follows the intrinsic value. To evaluate the Stock Appreciation Rights, a binomial model was used. This model takes various conventional vesting conditions for stock-based compensation models into account. The expected volatility is calculated based on the monthly, weekly, and daily changes in the stock market price for the period of 2013 to 2016. The arising changes in value due to share price changes are recognized during the vesting period as personnel costs, or, in case of impairment, in other operating income. Cash payment obligations are recognized as other long-term or current liabilities, depending on the remaining time of the vesting period.

In 2015, 35,000 Stock Appreciation Rights were issued to employees. These are exercisable when the artnet AG’s share price exceeds at least 10% on the issue date, but at the earliest after the end of the vesting period of two years. The share price was 2.09 EUR on the issue date, and the target price of 2.30 EUR was exceeded within 2015. As of December 31, 2016, the time until the end of the vesting period was 0.25 years. Outstanding rights expire in 8.25 years.

For issued Stock Appreciation Rights (SAR), a liability in the amount of 54k EUR was recognized separately in current liabilities for December 31, 2016 (2015: 16k EUR, as non-current). For SAR, expenses in the amount of 38k EUR (2015: 16k EUR) were booked. Expenses in the amount of 53k EUR were booked for share-based remunerations in the 2016 fiscal year, compared to 87k EUR in 2015.

19. Personnel Expenses

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

Personnel Expenses by Expense Category	2016 k EUR	2015 k EUR
Cost of Sales	3,954	3,697
Sales and Marketing	3,051	2,959
General and Administrative Expenses	1,741	1,722
Product Development	2,573	2,664
Total Personnel Expenses	**11,319**	**11,042**

While personnel expenses increased in the operating currency of US dollars by 2% to 12,524k USD, it increased in the reporting currency of euros by 3% due to exchange rate effects.

The total personnel costs in the 2016 and 2015 fiscal years include social security expenses of 1,346k EUR and 1,423k EUR, respectively, and a 401(k) expense of 119k EUR and 121k EUR, respectively.

On average, the Group employed 113 full-time employees in 2016 and 2015. Additionally, the Group employed two part-time employees in 2016 and 2015. In sales and other departments, the Group had 9 freelancers, as compared to 11 in the previous year.

The average number of employees in the 2016 and 2015 fiscal years was 124 and 127, respectively. The employees were engaged in the following activities:

	2016	2015
Cost of Sales	58	59
Sales and Marketing	34	36
General and Administrative Expenses	14	13
Product Development	18	19
Total	**124**	**127**

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 2016 and 2015, the matching contributions were 119k EUR and 121k 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:

	2016 EUR	2015 EUR
Numerator (Earnings): Net income for the fiscal year	633,207	638,949
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	–	–
Weighted average number of ordinary shares used to calculate dilutive earnings per share	5,552,986	5,552,986

The weighted average exercise price of stock options (4.43 EUR) is higher than the weighted average share price in 2016 (2.47 EUR). As a result, there are no diluted shares.

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:

	2016 k EUR	2015 k EUR
Scheduled Amortization/Depreciation	358	479
Personnel Expenses	11,319	11,042

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

Financial Results

The financial result in 2016 primarily includes interest expenses for liabilities from finance leases in the amount of 1k EUR (2015: 13k), for the short-term loan. For the long-term shareholder loan granted in 2013, which was repaid in full in 2016, interest amounted to 7k EUR, (2015: 16k).

Other Income and Expenses

In 2016, the realized and unrealized losses on currency exchange rates in this position of the consolidated income statement amounted to 111k EUR (2015: 67k EUR). In 2016, 1k EUR was incurred for non-operating income and expenses (2015: 58k EUR).

The non-operating income resulted mainly from the provision amounting to 150k EUR for the German lawsuit with a photographer, which was released in 2016.

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

The segment reporting is shown in multilevel Contribution Margin accounting. In the first stage, the difference of the generated revenues and the direct variable costs (Contribution Margin (CM I)) for each segment is calculated. 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 (CM II) is the amount available by segment to cover the fixed costs. The CM II expresses a better picture of the profitability of each segment.

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

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

2016	Revenue k USD	Contribution Margin II k USD
artnet Galleries	6,492	3,466
artnet Price Database	7,600	4,480
artnet Auctions	3,205	(64)
artnet News	1,940	(391)
Total	**19,237**	**7,491**

2015	Revenue k USD	Contribution Margin II k USD
artnet Galleries	6,895	4,230
artnet Price Database	7,678	4,308
artnet Auctions	2,906	(738)
artnet News	1,704	(807)
Total	**19,183**	**6,994**

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

Reconciliation of Segments Contribution Margin II to the Operating Income	2016 k USD	2015 k USD
Contribution Margin II	7,491	6,994
Fix Costs included in Sales Expenses Including Depreciation 403,000 USD (Previous Year: 531,000 USD)	2,246	2,237
Fix Costs included in General and Administrative Expenses	3,966	3,475
Fix Costs included in Product Development Expenses	566	496
Operating Income	**713**	**785**

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

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

2015	Revenue in Consolidated Income Statement k USD	Allocated Advertising Revenue k USD	Revenue by Segment k USD
Segments			
artnet Galleries	5,428	1,467	6,895
artnet Price Database	7,231	447	7,678
artnet Auctions	2,906	–	2,906
artnet News	–	1,704	1,704
Allocated advertising revenue	3,618	(3,618)	–
Total	**19,183**	**–**	**19,183**

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

2016 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
artnet Galleries	121	84
artnet Price Database	126	90
artnet Auctions	96	39
artnet News	61	27
Total	**403**	**241**

2015 k USD	Scheduled Depreciation/ Amortization	Allowance for Bad Debts
artnet Galleries	155	106
artnet Price Database	173	121
artnet Auctions	111	52
artnet News	92	22
Total	**531**	**301**

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	2016 k EUR	2015 k EUR
USA	9,939	10,166
Europe	5,651	5,562
Other	1,796	1,556
Total	**17,386**	**17,284**

98% of the Group's assets, including property and equipment and intangible assets, are mainly located in the United States.

The Group's scheduled depreciation and amortization amounting to 358k EUR is also predominantly allocated to the assets in the United States (2015: 479k EUR).

25. Operating Leases

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

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

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

As of both December 31, 2016 and 2015, the following future minimum lease payments result from existing office lease agreements:

Lease Payments	12/31/2016 k EUR	12/31/2015 k EUR
Expiring in Less Than One Year	937	866
Expiring Between Two and Five Years	3,878	3,677
Expiring in More Than Five Years	1,377	2,299
Total	**6,193**	**6,843**

Office lease expenses for the Group in 2016 and 2015 amounted to 874k EUR and 884k EUR, respectively.

26. Auditor's Fees

Auditor's fees, including travel expenses for the audit of the statutory financial statements of the Company and the consolidated financial statements, amounted to 63k EUR in 2016 and

61k EUR the previous year. In addition, the Company recorded 19k EUR in 2016 and 20k EUR in 2015, for other services. All fees are recognized as expenses in 2016 and 2015, respectively.

27. Related-Party Transactions

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

Management Board

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

In the 2016 and 2015 fiscal years, Jacob Pabst received the following remuneration from the Group:

	2016 EUR	2015 EUR
Fixed Salary	316,333	304,088
Value of Additional Payments (Health Insurance)	12,040	10,025
Fixed Remuneration Components	328,373	314,113
Bonus (Variable Compensation)	–	–
Total	**328,373**	**314,113**

Jacob Pabst waived the variable compensation mentioned in the 2015 fiscal report in the amount of 25k EUR in 2016.

Supervisory Board

- John D. Hushon, Naples, Florida, USA, Chairman until July 13, 2016
- Andreas Langenscheidt, Munich, Germany, Chairman from July 13, 2016
- Hans Neuendorf, Berlin, Germany, Deputy Chairman
- Piroschka Dossi, Munich, Germany until July 13, 2016
- Dr. Bernhard Heiss, Munich, Germany from July 13, 2016

Mr. Neuendorf and companies under his control own 1,523,551 shares of artnet AG.

Dr. Bernhard Heiss holds 241,600 shares of artnet AG.

Mr. Andreas Langenscheidt holds 186,849 shares of artnet AG.

Remunerations in the following amounts were paid to the members of the Supervisory Board in the 2016 and 2015 fiscal years:

	2016 EUR	2015 EUR
John D. Hushon	37,500	50,000
Hans Neuendorf	37,500	37,500
Piroschka Dossi	18,750	25,000
Andreas Langenscheidt	23,361	–
Dr. Bernhard Heiss	11,660	–
Total	**128,771**	**112,500**

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

Other Transactions with Related Parties

In 2016 and 2015, Hans Neuendorf sold one item each year on the auction platform, artnet Auctions. In accordance with the current terms and conditions, no commission was charged for this sale as the value of this artwork exceeded 10k USD.

The remaining loan amount of 294k EUR granted by the main shareholder, Hans Neuendorf, was repaid in full in October 2016. The loan was subject to a floating interest rate (30-day LIBOR plus 200 basis points), with a minimum interest rate of 4% per year. In total, interest in the amount of 7k EUR (2015: 16k EUR) was recorded as an expense.

The related parties of Mr. Neuendorf, deputy chairman, and Mr. Pabst, CEO, worked or provided services totaling in the amount of 173k EUR in 2016 and 100 EUR in 2015, respectively, at market conditions.

28. Accounting Estimates and Judgments

The preparation of the Group's consolidated financial statements requires Management estimates and assumptions that affect reported amounts and related disclosures. All estimates and assumptions are made to the best of Management's knowledge in order to fairly present the Group's financial position and result 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, among other things, 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 or tax loss carryforwards expire from planned usage.

Capitalized Costs of Website Development

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

Provisions

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

For current provisions, a cash outflow is anticipated for the 2017 fiscal year, with an exception for the provision in the amount of 850k EUR (2015: 800k EUR) for litigations in France in connection to a copyright infringement claim by a photographer. Aside from all legal remedies, artnet continues its efforts to achieve a settlement with the photographer. Considering all available options, artnet does not believe a full payment of damages, for which provisions were made in the 2015 fiscal year, will be required in 2017. There are significant uncertainties with regard to the question of when, and to what extent, a cash outflow could occur in this context.

29. Significant Events After the Balance Sheet Date

There were no reportable events of significance after the balance sheet, as of December 31, 2016 to March 20, 2017, that could have a material impact on the artnet Group's financial position or result of operations.

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

According to § 21 WpHG shareholders are required to report when the level of their shareholdings exceed or fall below certain thresholds. The thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75%.

artnet AG was notified about the following notification of voting rights as per § 26 WpHG:

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):*	Domicile:	Shareholder, if different to person or entity subject to the notification obligation:	+ = 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
2/25/2016	**Hans-Herbert Döbert**			+	5	8/13/2015	*6.66*	375,193	0	
3/3/2016	**Hans-Herbert Döbert**			+	5	8/13/2015	*6.66*	375,193	0	Correction of a voting rights notification published on 2/25/2016
6/17/2016	**Matczuk Wieczorek i Wspólnicy Kancelaria Adwokatów i Radców Prawnych Spółka Jawna (General Partnership)**	Warsaw, Poland		+	5	6/6/2016	*8.29*	466,604	0	
6/21/2016	**Artnews S.A.**	Warsaw, Poland		-	3, 5	6/6/2016	*0*	0	0	
7/8/2016	**Abbey Asset Management Spółka z ograniczoną odpowiedzialnością 4 Spółka komandytowo-akcyjna (partnership limited by shares)**	Warsaw, Poland		+	3, 5	7/4/2016	*8.29*	466,609	0	
7/8/2016	**Matczuk Wieczorek i Wspólnicy Kancelaria Adwokatów i Radców Prawnych Spółka Jawna (General Partnership)**	Warsaw, Poland		-	3.5	7/4/2016	*0*	0	0	
7/12/2016	**Abbey Asset Management Spółka z ograniczoną odpowiedzialnością 4 Spółka komandytowo-akcyjna (partnership limited by shares)**	Warsaw, Poland		-	3.5	7/4/2016	*7.97*	448,664	0	Correction of a voting rights notification published on 7/8/2016
7/12/2016	**Matczuk Wieczorek i Wspólnicy Kancelaria Adwokatów i Radców Prawnych Spółka Jawna (General Partnership)**	Warsaw, Poland		-	3.5	7/4/2016	*0.32*	17,945	0	Correction of a voting rights notification published on 7/08/2016
8/1/2016	**MWW Trustees Spółka z ograniczoną odpowiedzialnością (limited liability company)**	Warsaw, Poland	MWW Trustees Spółka z ograniczoną odpowiedzialnością Spółka komandytowo - akcyjna	+	3.5	4/7/2016	*7.97*	0	448,664	
	MWW Trustees Spółka z ograniczoną odpowiedzialnością (limited liability company)						*0*			
	MWW Trustees Spółka z ograniczoną odpowiedzialnością Spółka komandytowo - akcyjn						*7.97*			

Announce-ment Date:	Person or entity subject to the notification obligation: *(Complete chain of subsidiaries starting with the top-ranking con-trolling person or the top-ranking controlling company):*	Domicile:	Shareholder, if different to person or entity subject to the notification obligation:	+ = 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
8/2/2016	**Copernicus Securities S.A.**	Warsaw, Poland	MWW Trustees Spółka z.o.o. S.K.A - (formerly Abbey Asset Management Spółka z.o.o. 4 S.K.A)	+	3.5	7/4/2016	7.97	0	448,664	Correction of a voting rights notification published on 7/12/2016
	Copernicus Securities S.A.						*0*			
	Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.						*0*			
	Whitestone Art Fund						*0*			
	MWW Trustees Spółka z ograniczoną Odpowiedzialnością Spółka komandytowo - akcyjna (formerly Abbey Asset Management Spółka z ograniczoną odpowiedzialnością 4 Spółka komandytowo-akcyjna)						*7.97*			
10/12/2016	**MWW Trustees Spółka z ograniczoną odpowiedzialnością (limited liability company)**	Warsaw, Poland		-	3.5	10/6/2016	0.00016	0	9	
	MWW Trustees Spółka z ograniczoną odpowiedzialnością (limited liability company)						*0*			
	MWW Trustees Spółka z ograniczoną odpowiedzialnością Spółka komandytowo - akcyjn						*0*			
10/12/2016	**Copernicus Securities S.A.**	Warsaw, Poland		-	3, 5	10/6/2016	0.00016	0	9	Correction of a voting rights notification published on 7/12/2016
	Copernicus Securities S.A.						*0*			
	Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.						*0*			
	Whitestone Art Fund						*0*			
	MWW Trustees Spółka z ograniczoną Odpowiedzialnością Spółka komandytowo - akcyjna (formerly Abbey Asset Management Spółka z ograniczoną odpowiedzialnością 4 Spółka komandytowo-akcyjna)						*0*			
10/12/2016	**Andreas Langenscheidt**			+	3	10/6/2016	3.3	185,850	0	
10/12/2016	**Dr. Bernhard Heiss**			+	3	10/6/2016	4.29	241,600	0	

Berlin, March 20, 2017

Jacob Pabst

CEO, artnet AG

English Translation of the Independent Auditors' Report

We have audited the consolidated financial statements prepared by artnet AG, Berlin, comprising the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes to the consolidated financial statements, together, with the Group Management Report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and Group Management Report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) German Commercial Code (HGB) are the responsibility of the Management of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch; "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German Commercial Law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group, in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we refer to the deliberations of the Management Board concerning the liquidity risk in the "Risk Reporting" section of the Group Management Report. There, it is stated that it could lead to liquidity risks which could endanger the Group as an ongoing concern if the judgment, in March 2015 to damages of 0.85 million EUR including interest by an appeals court in France, would have to be paid on a short-term basis. The Management Board wants to exercise all legal options available against the enforcement of the judgment, as well as conduct negotiations with the plaintiff for a settlement out of court. Therefore, the Management Board does not expect a complete cash outflow because of the judgment in 2017.

Hamburg, March 21, 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Florian Riedl	Dirk Schützenmeister
Wirtschaftsprüfer	Wirtschaftsprüfer

artnet AG
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Andreas Langenscheidt, Chairman
Hans Neuendorf, Deputy Chairman
Dr. Bernhard Heiss
Management Board
Jacob Pabst, CEO

Artnet Worldwide Corporation
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Investor Relations

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

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

German Securities Code Number

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

Wertpapier-Kenn-Nummer

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