

artnet ag 2005



ARTISTS GALLERIES EVENTS RESEARCH DIRECTORY MAGAZINE

CONSOLIDATED FINANCIAL STATEMENTS

Artnet AG

As of December 31, 2005 and 2004
and for the years ended
December 31, 2005 and 2004

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Letter to the Shareholders:

With a customer base of over 1,200 galleries and over 5,000 Price Database subscribers, we currently enjoy a fairly predictable revenue stream. And, while there are 3-4 competing price database products on the market, there is no comparable galleries network anywhere, nor do we anticipate competition in this sector of the business.

Going forward, we would anticipate enhanced revenues from both the galleries network and Price Database as we continue our aggressive sales initiatives with product improvements (see artnet Strategic Objectives, specifically Website Functionality), with special emphasis on the decorative arts. As of this writing, we are adding decorative lots to the Price Database, and we expect greater advertising participation from the auction houses and galleries specializing in a wide array of products from antique furniture . . . to clocks . . . to silver . . . to design.

We would also expect to generate significant national advertising revenues as we continue to build audience. We have already had a good response from the financial sector (banks, brokerage houses, insurers) on the heels of our new “Market Trends” initiative. Significantly, too, Nielsen NetView Research corroborates our visitors’ high income level and sophistication. We would hope to position artnet as an upscale “oasis” for marketers of a variety of products and services such as fine watches, automobiles, and travel. In line with this initiative, we have retained national advertising sales reps in the United States and on the continent.

So it is with measured optimism, I believe we can look forward to continued growth and another strong performance in 2006.

Hans Neuendorf

artnet – Group management report for the Year ended December 31, 2005

BUSINESS

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 is now listed on the Geregelter Market at the Frankfurt Stock Exchange. Artnet AG's principal holding is its wholly owned subsidiary, Artnet Worldwide Corp., a New York corporation founded in 1989. artnet AG and Artnet Worldwide Corp. (collectively, "the Company") operate under the trade name "artnet."

The following financial statements herewith are in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS from U.S. GAAP has had no material effects on the consolidated financial statements.

Overview

artnet provides web-based services to fine art professionals all over the world, improving industry communications and bringing transparency with up to the minute pricing information. The vehicles here are two:

The "**galleries**" network, comprising over 1,200 dealers and 100,000 artworks in inventory, represents the world's largest market overview commanding over 5.7 million page views a month. Dealers routinely sell works advertised on the network, and, just as significantly, they are able to post a "wanted to buy" to acquire works from other dealers and private collectors.

With over two million auction records, artnet's **Price Database** is widely subscribed by appraisers, dealers, auctioneers, financiers, and private and government (including the IRS and FBI) institutions. But, most importantly, it provides an illustrated "blue book" for private collectors with which they can appraise the works they own and measure opportunities at auction or in the dealer market. Dealers and auctioneers, in their turn, use artnet "comps" (comparables sales from artnet's Price Database) to sell important works of art. In fact, 18 months ago, Sotheby's began a program where all fine art lots in their New York sales posted on sothebys.com are linked to a branded artnet "sales history."

Artnet Strategic Objectives

The Company plans to improve its services with focus in three key areas.

Website Functionality

We are continually searching for ways to speed communication about **all** of our relevant products and services more effectively. Last year, we worked to integrate "galleries" and "Price Database" information in a single "artist index", accessible in Google and in the other major search engines. Going forward, we have retained a top German design firm to help us facilitate further improvements along these lines and to reduce the time it takes to download this information.

Decorative Arts Database

artnet will produce a separate database for decorative lots and will look to expand our customer base both among the dealers and auctioneers in the field and with users. We believe this represents a huge opportunity as there are more practitioners in this area than in the fine arts.

International Growth

The Company looks to further expand the presence of its business abroad, particularly in Europe. The international growth will open the website to a larger audience who are not currently serviced by the Company.

Executive and Operating Financial Summary

Overview of financial information 2005

During 2005, artnet made continued efforts towards improving profitability. The Company experienced tremendous revenue growth across all product categories during the year. This revenue growth of 28% year over year was primarily the result of increased site functionality as well as an increase in the overall sales efforts of the Company. Additionally, the art market, in which the Company operates, has seen steady growth over the last few years. In particular, prices at auction are up 42% from record sales levels in 1989. The increase in the market has created a more favorable sales environment for the Company. Additionally, with the Internet reaching more households during 2005, the website is continuing to connect to an increased number of art enthusiasts and galleries resulting in further interest from the galleries in the website as well as an increase in the number of subscriptions to the Price Database product. In regards to costs, the Company continued to streamline operations related to administrative expenses in an effort to increase profitability throughout the year. This effort, along with our revenue growth, has resulted in a significant increase in our cash on hand from \$392,000 as of December 31, 2004, to \$1,175,000 as of December 31, 2005. Additionally, our net profit increased to \$1,431,000 in 2005 as compared to a net loss (\$654,500) in the prior year which was influenced by a significant one-time expense. The profit from operations improved from a loss of (\$86,000) in 2004 to an operating profit of \$1,376,000 in 2005.

FINANCIAL RESULTS

The Company's business is primarily conducted in U.S. dollars. The majority of the Company's operations are located in the U.S. However, Management provides financial information in both U.S. dollars and euros for the convenience of financial investors worldwide.

Revenue

Total revenue was \$8,090,000 and \$6,300,000 for the year ended December 31, 2005 and 2004, respectively, representing an increase of \$1,790,000 or 28%. The Company had solid increases in all three product categories. The increase in Online Gallery Network and advertising revenue was primarily the result of the Company's overall strategy to increase sales efforts and site functionality in order to promote higher usage of the site. The increase in Price Database revenue was primarily the result of growth in the number of active users as well as new product revenue. In euro terms, total revenue was Euro 6,509,000 and Euro 5,065,000 for the year ended December 31, 2005 and 2004, respectively.

Online Gallery Network

Online Gallery Network revenue increased by 27% to \$3,684,000 for the year ended December 31, 2005 from \$2,912,000 in the same period a year ago. Online Gallery revenue is generated from membership fees paid by the galleries in connection with their online gallery website. The increase is primarily the result of the Company's emphasis on increasing site functionality which has helped the user community to better navigate the site and reach the gallery members as well as increased sales efforts. Additionally, the art market has seen steady growth over the last few years which has resulted in a favorable sales environment for the Company.

Price Database Revenue

Price Database revenue increased by 28% to \$3,322,000 for the year ended December 31, 2005 up from \$2,591,000 in the same period a year ago. The Price Database revenue is generated by subscription fees paid to view the online information in the Database as well as subscription revenue from our two new products, Market Alert, which alerts the user as to when a particular artist is being sold at auction or through an online gallery, and the imageless search, which is the Database information less the images of the artworks. The increase is primarily the result of the growth in the number of active users as well as users upgrading their subscription packages. Additionally, revenue from both Market Alert and the Imageless search products contributed to the increase.

Banner Advertising revenue

Advertising revenue increased by 36% to \$1,084,000 for the year ended December 31, 2005 up from \$797,000 for the same period a year ago. Advertising revenue consists of tile and banners which are displayed throughout the site. These banners are sold to galleries, auction houses and other clientele. The increase in advertising revenue is primarily attributable to increased site traffic as well as enhanced search functionality on the website.

Cost of Revenue

Cost of Revenue was \$1,654,000 and \$1,357,000 for the year ended December 31, 2005 and 2004, respectively, representing an increase of \$297,000 or 22%. This category includes all editorial, content and production-related costs for the online Gallery Network, Price Database, and the artnet magazines as well as credit card transaction costs. The increase is primarily the result of online gallery website production costs related to servicing a larger number of gallery members as well as increased Price Database production costs as a result of the recently expanded upcoming auctions page. Additionally, artnet has continued its investment in the German Magazine that went live in the fourth quarter of 2004. In euro terms, Client Service Production and Editorial expenses were Euro 1,331,000 and Euro 1,091,000 for the year ended December 31, 2005 and 2004, respectively.

Operating Expenses

Selling and Marketing

Selling and Marketing expenses were \$1,148,000 and \$1,125,000 for the year ended December 31, 2005 and 2004 respectively, representing an increase of \$23,000 or 2%. This category includes advertising, marketing and promotional activities and salesperson salaries and commissions. The increase was primarily related to commission costs that increased as a result of the growth in sales as well as marketing costs associated with the promotion of the website. In euro terms, Selling and Marketing expenses were Euro 924,000 and Euro 905,000 for the year ended December 31, 2005 and 2004, respectively.

General and Administrative

General and Administrative expenses were \$3,358,000 and \$3,131,000 for the year ended December 31, 2005 and 2004 respectively, representing an increase of \$227,000 or 7%. This category includes executive and administrative salaries, professional fees, compliance costs, bad debt expense, communications costs including Internet access, and premises and facilities costs. The increase in 2005 was primarily a result of continued improvements in the network infrastructure which resulted in additional costs. Rental and facilities costs also went up in relation to the new Berlin office. At the end of 2004, the Company moved its main office from Potsdam to Berlin. In euro terms, General and Administrative expenses were Euro 2,701,000 and Euro 2,517,000 for the year ended December 31, 2005 and 2004, respectively.

Product Development

Product Development expenses were \$392,000 and \$420,000 for the year ended December 31, 2005 and 2004, respectively, representing a decrease of (\$28,000) or (7%). This category includes technology staff and consulting fees for new product conception, planning, and software development as well as post-implementation phases of our website development efforts which amounted to \$99,000. Product development expenses are net of capitalization of major site and other product development efforts. The decrease is primarily the result of increased work on products that are in the capitalization phase as opposed to new initiatives that are not in the capitalization phase. The Company anticipates that it will continue to devote resources to product development in the future as it adds new features and functionality as well as new product lines to the site. In euro terms, Product Development expenses were Euro 315,000 and Euro 338,000 for the year ended December 31, 2005 and 2004, respectively.

Non-Cash Compensation Expense

Non-Cash Compensation expense was \$18,000 and \$261,000 for the year ended December 31, 2005 and 2004, respectively. Non-cash compensation expense in 2004 in the amount of \$251,000 reflects a charge to compensation arising from a one-time grant of employee stock options with a strike price of Euro 6.72 prior to the initial public offering in 1999. The options were completely vested during the second quarter of 2004 and therefore all compensation expense related to these stock options has been recorded. Additionally, in 2004 and 2005, stock option expense was recorded related to the adoption of the new IFRS standards in which all stock options must be expensed based on their fair value over the vesting period.

Depreciation and Amortization

Depreciation and Amortization expenses were \$144,000 and \$92,000 for the year ended December 31, 2005 and 2004, respectively, representing an increase of \$52,000 or 57%. Depreciation and Amortization Expenses relate to computer equipment, software purchases, website development and leasehold improvements. The increase is primarily due to website development and equipment purchases completed during the years 2004 and 2005. In Euro terms, Depreciation and Amortization expenses were Euro 116,000 and Euro 74,000 for the year ended December 31, 2005 and 2004, respectively.

Non Operating Items

Interest Expense

Interest expense was (\$37,000) and (\$38,000) for the year ended December 31, 2005 and 2004, respectively. Interest expense primarily represents interest on loans due to shareholders.

Other Income, net

Other Income, net, was \$137,000 and (\$531,000) for the year ended December 31, 2005 and 2004. In 2004, negative other income, net, consisted primarily of income from write-offs and settlements related to prior year accruals offset by expenses for back wages due to the CEO for three years of service in which he did not receive a salary. In 2005 the positive other income derives mainly from releases of provisions and liabilities and VAT refunds for previous years.

Asset Position, Liquidity and Capital Resources

At the end of 2005, as a result of the Company's positive net income, the Company had a positive shareholders equity of \$123,000 as opposed to a shareholders deficit of (\$1,439,000) in the prior year. Additionally, the Company worked to reduce its debt position and has decreased its accounts payable, accrued liabilities and liability due to shareholder by \$741,000 primarily due to loan payments made to

the Company's shareholder loan, payments to the CEO related to back wages, and payments related to a legal settlement entered into at the end of 2004. Although the Company has seen a growth in overall revenue of 28%, the Company has not experienced an increase in accounts receivable due to an increase in the number of monthly contracts sold as opposed to annual contracts which create a larger balance on the accounts receivable. Even with the decrease in accounts payable and accrued expenses, the Company was still able to increase its cash resources from \$392,000 as of December 31, 2004, to \$1,175,000 as of December 31, 2005 primarily due to strong sales during the year and increased focus on administrative cost savings.

The Company has generated positive net cash flows provided by operating activities for both 2005 and 2004. In 2005, the positive net cash flow provided by operating activities was \$1,355,000 as compared to \$412,000 in 2004. The increase is primarily attributable to the positive net profit of 2005.

The net cash flows used for investing activities were \$317,000 and \$214,000 for the years ended December 31, 2005 and 2004, respectively. Purchase of property and equipment related primarily to computer equipment that was purchased to support the increase in gallery website memberships and leasehold improvements for both the Berlin and New York facilities. The purchases of intangible assets was the result of capitalization for the website design and development. During 2005, the Company continued to improve the functionality and usability of the site. The Company anticipates the website development will continue in the coming years.

The net cash flows used for financing activities were \$248,000 and \$134,000 for the year ended December 31, 2005 and 2004, respectively, and related primarily to loan repayments as well as foreign currency translation adjustments.

OTHER INFORMATION

Foreign Currency Translation

Currency translation in the statement of operations is based on the average exchange rate for the period ending December 31, 2005 and 2004, respectively. For 2005, the average rate was .8045 euros/dollar, almost identical to .8039 euros/dollar in 2004. Currency translation for the balance sheet is based on the exchange rate at the end of the period. As of December 31, 2005, the rate was .8444 euros/dollar as compared to .7342 at December 31, 2004, thus representing an exchange differential of 15%.

artnet employee stock option plan

The employees of artnet held 239,250 stock options as of December 31, 2005, of which 170,250 were exercisable. Of these 239,250 stock options the management of Artnet Worldwide Corp. held 150,000 as of December 31, 2005, of which 133,500 were exercisable.

artnet Treasury Stock

artnet held 78,081 treasury shares of stock representing 1.4 % of the common stock as of December 31, 2005 and December 31, 2004.

Employees

As of December 31, 2005 the Company had 42 full time employees as compared to 41 in the prior year. Additionally, the Company had eight sales consultants working on commission as compared to six in the prior year and six part-time employees as compared to two at the end of 2004.

RISK FACTORS

System Failures could harm the business

Any interruption in the availability of the website reduces the Company's current revenues and profits, and could harm future revenues and profits. Frequent or persistent interruptions in service could cause current or potential users to believe that the Company's systems are unreliable, leading them to avoid the site, and could permanently harm the Company's reputation. These interruptions increase the burden on the IT Department, which, in turn, could delay the introduction of new features and services. Although the Company's systems have been designed to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, and other similar events. The Company's website servers are currently located in a secured facility. The facility provides redundant servers in an offsite location that serve as a back up to the main facility. The redundant servers are meant to ensure minimal downtime in case of fire, flood or other disaster that may happen to the main facility.

Costly efforts to develop and promote the artnet brand

The Company's historical growth has been largely attributable to word of mouth in the art community. The Company believes that continuing to strengthen the artnet brand will be critical to achieving widespread acceptance of the website and will require an increased focus on marketing efforts. The Company will need to spend increasing amounts of money on advertising, marketing, and other efforts to create and maintain brand loyalty. If the Company fails to promote and maintain the artnet brand, the business would be harmed.

Continued growth of online commerce

The Internet business is relatively new. Concerns about fraud, privacy, and other problems may discourage additional consumers from using the Internet as a means of commerce. Market acceptance for recently introduced services and products over the Internet is highly uncertain and may harm the business if not successfully accepted.

Remaining competition with technology changes

The Company's future success will depend on the Company's ability to adapt to rapidly changing technologies and evolving industry standards and to improve the performance, features, and reliability of the website. The Company's failure to adapt to such changes could harm the business.

The Company is exposed to foreign currency fluctuations

Because the Company conducts a portion of the business outside the United States but report the results in U.S. dollars, the Company faces exposure to adverse movements in currency exchange rates. As exchange rates vary, net sales and other operating results, when translated, may differ materially from expectations.

REPORT ON POST-BALANCE SHEET EVENTS

No reportable events of significant importance have occurred after the balance sheet date up to the date of this management report.

OUTLOOK

The Company's expectation for future growth

Today's art market is approximately twenty times larger than it was in 1990, (New York Magazine, April 3, 2006), the approximate date of the last art market recession. It is also global and diversified, and, arguably more stable than it's ever been.

Economic vicissitudes notwithstanding, it is our expectation that the art market will favor continued growth for the Company in 2006, resulting in increased revenue and net income.

With over 1,200 gallery participants from 41 countries and more than 5,000 Price Database subscribers, artnet enjoys a diversified, international client base.

artnet expects to continue to invest in the business and to strive for cost and operational efficiencies. We believe that investment in infrastructure and product development as well as in selling and marketing initiatives is crucial to building momentum for the future.

Berlin, March 27, 2006

The CEO
Hans Neuendorf

artnet AG
CONSOLIDATED BALANCE SHEETS
As of December 31, 2005 and December 31, 2004

	Notes	12/31/2005 Consolidated USD	12/31/2004 Consolidated USD	12/31/2005 Consolidated EURO	12/31/2004 Consolidated EURO
CURRENT ASSETS					
Cash and cash equivalents	10	\$ 1,175,379	\$ 392,510	992,490	288,165
Accounts receivable-net	3,10	634,132	698,134	535,461	512,542
Prepays and other current assets		<u>115,358</u>	<u>104,469</u>	<u>97,408</u>	<u>76,696</u>
Total current assets		1,924,869	1,195,113	1,625,359	877,403
NONCURRENT ASSETS					
Property and equipment	3,4,9	218,561	132,430	184,553	97,225
Intangible assets	3,4,8	136,998	94,016	115,681	69,023
Security deposit		185,202	185,202	156,385	135,968
Due from shareholder	19	<u>215,249</u>	<u>171,511</u>	<u>181,756</u>	<u>125,917</u>
Total noncurrent assets		<u>756,010</u>	<u>583,159</u>	<u>638,375</u>	<u>428,133</u>
TOTAL ASSETS	4	<u>\$ 2,680,879</u>	<u>\$ 1,778,272</u>	<u>2,263,734</u>	<u>1,305,536</u>
LIABILITIES AND SHAREHOLDER'S EQUITY/(DEFICIT)					
CURRENT LIABILITIES					
Accounts payable	3,10	\$ 582,818	\$ 930,638	492,132	683,240
Accrued expenses	12	677,474	702,487	572,059	515,738
Current income tax liabilities	3,11	44,620	--	37,677	--
Due to shareholder	17,19	164,212	532,001	138,661	390,574
Deferred revenue	3	<u>1,088,754</u>	<u>1,052,008</u>	<u>919,344</u>	<u>772,343</u>
TOTAL LIABILITIES		<u>2,557,878</u>	<u>3,217,134</u>	<u>2,159,873</u>	<u>2,361,895</u>
SHAREHOLDERS' EQUITY/(DEFICIT)					
Common stock	13	5,941,512	5,941,512	5,631,067	5,631,067
Treasury stock	13	(269,241)	(269,241)	(264,425)	(264,425)
Additional paid-in capital	2	51,334,420	51,316,497	50,194,993	50,180,573
Accumulated deficit	2	(58,306,652)	(57,652,112)	(56,603,322)	(56,077,106)
Net Profit/(Loss)	2,7	1,431,114	(654,540)	1,151,374	(526,216)
Foreign currency translation adjustment	2,3	<u>(8,152)</u>	<u>(120,978)</u>	<u>(5,826)</u>	<u>(252)</u>
TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)		<u>123,001</u>	<u>(1,438,862)</u>	<u>103,861</u>	<u>(1,056,359)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/ (DEFICIT)		<u>\$ 2,680,879</u>	<u>\$ 1,778,272</u>	<u>2,263,734</u>	<u>1,305,536</u>

artnet AG
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Twelve Months ended December 31, 2005 and 2004

	Notes	12/31/2005 Consolidated USD	12/31/2004 Consolidated USD	12/31/2005 Consolidated EURO	12/31/2004 Consolidated EURO
Revenue					
Online Gallery Network	3	\$ 3,683,878	\$ 2,912,029	2,963,790	2,341,122
Price Database	3	3,322,381	2,591,320	2,672,955	2,083,289
Advertising	3	1,084,016	797,067	872,123	640,801
Total revenue	4	<u>8,090,275</u>	<u>6,300,416</u>	<u>6,508,868</u>	<u>5,065,213</u>
Cost of Net Revenues		<u>1,653,879</u>	<u>1,357,330</u>	<u>1,330,595</u>	<u>1,091,225</u>
Gross profit		<u>6,436,396</u>	<u>4,943,086</u>	<u>5,178,273</u>	<u>3,973,988</u>
Other operating expenses					
Selling and Marketing		1,148,361	1,125,219	923,891	904,620
General and Administrative		3,357,690	3,130,502	2,701,362	2,516,974
Product Development		392,038	420,105	315,406	337,743
Noncash Compensation Expense	2,3,15	17,923	261,138	14,420	209,728
Depreciation and Amortization	5	<u>144,327</u>	<u>91,899</u>	<u>116,115</u>	<u>73,882</u>
Total other operating expenses		<u>5,060,339</u>	<u>5,028,863</u>	<u>4,071,194</u>	<u>4,042,948</u>
Profit/Loss from operations		1,376,057	(85,777)	1,107,079	(68,960)
Interest Expense		(37,411)	(37,806)	(30,098)	(30,394)
Other Income/Expense, Net	3	<u>137,088</u>	<u>(530,957)</u>	<u>110,291</u>	<u>(426,862)</u>
Profit Prior to tax provision		<u>1,475,734</u>	<u>(654,540)</u>	<u>1,187,272</u>	<u>(526,216)</u>
Tax Provision	3,11	<u>(44,620)</u>	--	<u>(35,898)</u>	--
Net Profit	2,7	<u>\$ 1,431,114</u>	<u>\$ (654,540)</u>	<u>1,151,374</u>	<u>(526,216)</u>
Earnings Per Share					
Net Profit per basic share	7	<u>0.26</u>	<u>(0.12)</u>	<u>0.21</u>	<u>(0.10)</u>
Net Profit per diluted share	7	<u>0.25</u>	<u>(0.12)</u>	<u>0.20</u>	<u>(0.10)</u>
Weighted Average Shares					
Basic	7	<u>5,552,986</u>	<u>5,507,790</u>	<u>5,552,986</u>	<u>5,507,790</u>
Diluted	7	<u>5,658,986</u>	<u>5,507,790</u>	<u>5,658,986</u>	<u>5,507,790</u>

artnet AG
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (USD)
For the Periods Ended December 31, 2005 and December 31, 2004

	Common Stock		Additional Paid-in Capital	Treasury Stock	Deferred compensation	Accumulated Deficit	Foreign Currency Translation	Total
	Shares Issued	Amount						
<u>BALANCE - JANUARY 1, 2004</u>	<u>5,631,067</u>	<u>5,941,512</u>	<u>56,222,097</u>	<u>(455,631)</u>	<u>(5,166,738)</u>	<u>(55,033,533)</u>	<u>(2,486,672)</u>	<u>(978,965)</u>
Initial application of IFRS 1 (Fresh Start)			(5,166,738)		5,166,738	(2,486,672)	2,486,672	-
<u>BALANCE - JANUARY 1, 2004</u> <u>AFTER INITIAL APPLICATION OF IFRS 1</u>	<u>5,631,067</u>	<u>5,941,512</u>	<u>51,055,359</u>	<u>(455,631)</u>	<u>--</u>	<u>(57,520,205)</u>	<u>--</u>	<u>(978,965)</u>
Net (Loss)						(393,402)		(393,402)
Foreign Currency Translation							(120,978)	(120,978)
Sale of Treasury stock				186,390		(131,907)		54,483
Non-cash Compensation			261,138			(261,138)		-
<u>BALANCE - DECEMBER 31, 2004</u>	<u>5,631,067</u>	<u>5,941,512</u>	<u>51,316,497</u>	<u>(269,241)</u>	<u>--</u>	<u>(58,306,652)</u>	<u>(120,978)</u>	<u>(1,438,862)</u>
Net Income						1,449,037		1,449,037
Foreign Currency Translation							112,826	112,826
Non-cash Compensation			17,923			(17,923)		-
<u>BALANCE - December 31, 2005</u>	<u>5,631,067</u>	<u>5,941,512</u>	<u>51,334,420</u>	<u>(269,241)</u>	<u>--</u>	<u>(56,875,538)</u>	<u>(8,152)</u>	<u>123,001</u>

artnet AG
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (EURO)
For the Periods Ended December 31, 2005 and December 31, 2004

	Common Stock		Additional Paid-in Capital	Treasury Stock	Deferred compensation	Accumulated Deficit	Foreign Currency Translation	Total
	Shares Issued	Amount						
<u>BALANCE - JANUARY 1, 2004</u>	<u>5,631,067</u>	<u>5,631,067</u>	<u>54,170,003</u>	<u>(447,481)</u>	<u>(4,199,158)</u>	<u>(53,453,409)</u>	<u>(2,480,641)</u>	<u>(779,619)</u>
Initial application of IFRS 1 (Fresh Start)			(4,199,158)		4,199,158	(2,480,641)	2,480,641	--
<u>BALANCE - JANUARY 1, 2004</u> <u>AFTER INITIAL APPLICATION OF IFRS 1</u>	<u>5,631,067</u>	<u>5,631,067</u>	<u>49,970,845</u>	<u>(447,481)</u>	<u>--</u>	<u>(55,934,050)</u>	<u>--</u>	<u>(779,619)</u>
Net (Loss)						(316,488)		(316,488)
Foreign Currency Translation							(252)	(252)
Sale of Treasury Stock				183,056		(143,056)		40,000
Non-cash Compensation			209,728			(209,728)		--
<u>BALANCE - DECEMBER 31, 2004</u>	<u>5,631,067</u>	<u>5,631,067</u>	<u>50,180,573</u>	<u>(264,425)</u>	<u>--</u>	<u>(56,603,322)</u>	<u>(252)</u>	<u>(1,056,359)</u>
Net Income						1,165,794		1,165,794
Foreign Currency Translation							(5,574)	(5,574)
Non-cash Compensation			14,420			(14,420)		--
<u>BALANCE - December 31, 2005</u>	<u>5,631,067</u>	<u>5,631,067</u>	<u>50,194,993</u>	<u>(264,425)</u>	<u>--</u>	<u>(55,451,948)</u>	<u>(5,826)</u>	<u>103,861</u>

artnet AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Twelve Months Ended December 31, 2005 and 2004

	Notes	12/31/2005 Consolidated USD	12/31/2004 Consolidated USD	12/31/2005 Consolidated EURO	12/31/2004 Consolidated EURO
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Net Profit/(Loss)	2,7	\$ 1,431,114	\$ (654,540)	1,151,374	(526,216)
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:					
Depreciation and amortization	5	144,327	91,899	116,115	73,882
Provision for doubtful accounts	3,10	73,346	(35,601)	59,009	(28,621)
Non-cash compensation	2,3,15	17,923	261,138	14,420	209,728
Changes in operating assets and liabilities:					--
Accounts receivable	3,10	(9,344)	2,357	(81,928)	45,576
Prepaid and other current assets		(10,889)	(17,708)	(20,712)	(7,602)
Security deposits		--	65,000	(20,417)	63,285
Accounts payable	3,10	(347,820)	395,671	(210,015)	268,209
Accrued expenses and tax liabilities	3,11,12	19,607	192,288	93,998	106,043
Deferred Revenue	3	36,746	111,490	147,001	23,344
TOTAL ADJUSTMENTS		(76,104)	1,066,534	97,472	753,844
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,355,010	411,994	1,248,846	227,628
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Purchase of property and equipment	3,4,9	(171,462)	(92,100)	(137,946)	(65,528)
Purchase of intangible assets	3,4,8	(101,978)	(78,230)	(82,044)	(56,727)
Receivables from shareholder, advance	19	(43,738)	(43,972)	(36,932)	(35,351)
NET CASH USED IN INVESTING ACTIVITIES		\$ (317,178)	\$ (214,302)	(256,923)	(157,606)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>					
Loan Payments to Shareholders	17	(313,154)	(54,483)	(251,913)	(40,000)
Change in foreign currency translation adjustment		65,361	(79,865)	(72,900)	19,932
NET CASH USED IN FINANCING ACTIVITIES		(247,793)	(134,348)	(324,813)	(20,068)
Effects of exchange rate changes on cash		(7,170)	4,699	37,215	(20,184)
NET INCREASE IN CASH AND CASH EQUIVALENTS		782,869	68,043	704,325	29,770
<u>CASH – Beginning</u>		392,510	324,467	288,165	258,395
<u>CASH – Ending</u>	10	\$ 1,175,379	\$ 392,510	992,490	288,165

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION

artnet AG, Mauerstrasse, Berlin, Germany (“the Company”), was incorporated under the laws of Germany in 1998.

The Company, through its wholly owned subsidiary Artnet Worldwide Corporation, a New York Corporation, USA, (“Artnet Corp”), provides art collectors, galleries, publishers and auction houses access to its Price Database, a database containing 2.9 million works of art sold at auction, on a fee per search basis. Additionally, the Company develops websites and banner advertisements for galleries that are hosted on the Artnet site. The address of the registered office is given in the investor relations section. The nature of the Company’s operations and its principal activities are set out in the Group management report for 2005.

Together artnet AG and Artnet Corp. are referred to as the Group, artnet Group or the Company.

The currency of the primary economic environment in which the Group operates is US Dollars. Amounts included in the consolidated financial statements and notes to the consolidated financial statements are stated as required by German law in Euros (€), unless otherwise noted.

NOTE 2 – PRESENTATION OF FINANCIAL STATEMENTS AND FIRST-TIME ADOPTION OF IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. The previous financial statements of the artnet Group had been prepared according to US-GAAP.

The Group has applied IFRS 1 “First time adoption of International Financial Reporting Standards” to provide a starting point for reporting under IFRS. The date of transition to IFRS was selected as 1 January 2004 and all comparative information in these financial statements has been restated to reflect the Group’s adoption of IFRS.

The Company is required to prepare a reconciliation between United States General Accounting Principles (US-GAAP) and IFRS in the first year of transition. The following changes have resulted from the transition from US-GAAP to IFRS.

Reconciliation of equity at 1 January 2004

The effect of the changes to the Group’s accounting policies on the equity of the Group at the date of transition, 1 January 2004, was as follows:

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

Change Number	Description	As reported under US-GAAP EURO	Effect of transition to IFRSs EURO	IFRSs EURO
(1)	Foreign Currency Exchange Difference			
	In Equity	(2,480,641)	2,480,641	-
(1)	Accumulated deficit	(53,453,409)	(2,480,641)	(55,934,050)
(2)	Deferred compensation item			
	(share-based payment) in Equity	(4,199,158)	4,199,158	-
(2)	Additional paid-in capital	54,170,003	(4,199,158)	49,970,845

(1)

The Company used the exemption of IFRS 1.22 to make a fresh start for the cumulative translation differences at the date of transition differences. The former cumulative translation differences according to US-GAAP are therefore deemed to be zero at 1 January 2004 and were netted with accumulated deficit in the opening balance sheet according to IFRS.

(2)

For the 1999 stock option plan and the options issued in 1999 in accordance with that plan, a deferred compensation equity-item was recognized in the consolidated equity that was distributed as expenses over the vesting period of the options according to US-GAAP. The corresponding original entry was an increase of additional paid-in capital. The remaining balance of that deferred compensation equity-item at the transition date to IFRS was netted with additional paid-in capital as IFRS 2 "Share-based payment" does not agree with the previous US-GAAP accounting.

Reconciliation of loss for the year ended 31 December 2004

The changes in accounting policies from US-GAAP to IFRS had only one effect on the profit and loss statement for the year ended 31 December 2004 concerning share-based payment.

For the stock-options issued in 2004, no expense was recognized in the profit and loss statement for US-GAAP-purposes as the Company had elected to account for stock options by the intrinsic value method. The intrinsic value of the stock-options granted by Artnet Corp. in 2004 was zero due to the exercise price being of equal value to the market price at the grant date.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

IFRS 2 “Share-based payment” requires the valuation of the stock options based on their fair value and the distribution of that fair value as expense over the vesting period. In 2004, the expense for the share-based payment according to IFRS, based on the calculated fair value of the stock options, amounted to Euro 7,838. Non-cash compensation expense was increased in 2004 by that amount from Euro 201,890 to Euro 209,728.

NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Accounting**

The financials have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of artnet AG and its legal subsidiary Artnet Corp. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On February 23, 1999 artnet.com AG entered into a transaction with Artnet Worldwide Corporation which was treated as a recapitalization of Artnet Corp., with Artnet Corp. as the acquirer of artnet.com AG (reverse acquisition). The Company accounted for the business combination of artnet AG and Artnet Corp. as a reverse acquisition in accordance with IFRS 3 B1ff.

Significant inter-company transaction, balances, income and expenses have been eliminated in consolidation.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, and other sales related taxes.

Revenue from upfront fees where the work has not yet been performed by the Company are deferred and recorded over the term that the Company provides the services. These amounts are included in the Company’s deferred revenue on the consolidated balance sheet.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lease contracts of the Group in the reporting periods are classified as operating leases.

Rent payable under operating leases is charged to income on a straight-line basis over the term of the relevant lease.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Foreign Currency Translation and Transactions

Transactions in currencies other than US Dollar 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.

Amounts included in the consolidated financial statements and notes to the consolidated financial statements are stated in Euros (€), unless otherwise noted.

On consolidation, the assets and liabilities of the Company'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.

Gains and losses resulting from translation are recorded as a separate component of the consolidated equity.

Realized gains and losses from foreign currency transactions are recognized as other income, net.

The following exchange rates have been used for the translation of \$US to Euro:

	12/31/2005	12/31/2004
Current rate of 1 \$US at	.8045	.8039
Average rate of 1 \$US in	.8444	.7342

Retirement Benefit Costs

The subsidiary Artnet Corp. has a defined contribution benefit plan, which qualifies under Section 401(k) of the Internal Revenue Code. Payments by the Company to the Company's 401(k) plan are charged as an expense.

Income Taxes

The charge for current tax is based on the results for the year of the individual consolidated company as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are recognized under the asset and liability method in respect to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences and operating loss and tax credit carry-forwards can be utilized.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets and liabilities are measured using currently enacted statutory tax rates for the years in which the differences are expected to reverse.

Property and Equipment

Property and equipment are valued at historical cost less accumulated depreciation. The Company computes depreciation and amortization using the straight-line method. Computer equipment, furniture and fixtures, and office equipment are depreciated over an estimated 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.

Intangible assets including website development costs

Intangible assets are comprised of purchased software and website development costs. Intangible assets are recorded at historical cost and amortized on a straight-line basis over their estimated useful life of three years.

artnet expenses costs related to the planning and post implementation phases of the Company's website development efforts. Direct costs incurred in the development phase are capitalized and amortized over the product's estimated useful life of three years. Costs associated with minor enhancements and maintenance for the website are included as expenses in the accompanying consolidated statement of operations.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangibles assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset 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 immediately unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized immediately.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Included in accounts receivable are unbilled receivables related to longer-term contracts of more than three months in duration. These unbilled receivables are offset in the liability account, "Deferred Revenue". In addition, when customers pay for their account using their credit card, there is a clearing period before the cash is received by the Company, usually two or three days. Hence, these funds are treated as a receivable until the cash is settled.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. In determining the adequacy of the allowance for doubtful accounts, management considers a number of factors including the aging of the receivable portfolio as well as customer payment trends. Actual results could differ from those estimates.

Trade Payables

Trade payables are not interest bearing and are stated at their nominal value.

Share Based Payments

The Company has applied the requirements of IFRS 2 Share-based Payments retrospectively for both reporting periods. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of January 1, 2005.

The subsidiary Artnet Corp. has issued stock-options to certain employees. The stock-options are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period based on the estimated amount of shares that will eventually vest.

The fair value of the stock-options was measured using the Black-Scholes-model.

Provisions

Provisions are recognized when the artnet Group has a present obligation as a result of a past event. Additionally, it must be probable that the obligation will result in an outflow of economic benefit and that the outflow can be reasonably estimated.

NOTE 4 – SEGMENT REPORTING

Due to its relatively small size, artnet Group is not organized in different operating divisions. All products share a common platform and use the Group's resources on a common basis. Therefore, no segmentation in operating segments is provided.

Geographical segments

The group's operations are mainly located in the USA represented by the subsidiary Artnet Corp. with 35 employees. The artnet AG office in Berlin is site of the CEO and of administrative and sales representatives for artnet's European operations with 7 employees in 2005.

The following table provides an analysis of the Group's revenues by geographical market:

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

Revenue	12/31/2005	12/31/2004
	Consolidated EURO	Consolidated EURO
United States	4,730,141	3,710,391
Europe	1,597,247	1,170,516
Rest of World	181,480	184,306
Total	6,508,868	5,065,213

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analyzed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to fixed assets	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004
	Consolidated EURO	Consolidated EURO	Consolidated EURO	Consolidated EURO
USA	2,135,492	1,213,646	180,633	96,824
Germany	128,242	91,890	39,357	25,431
Rest of world	-	-	-	-
Total	2,263,734	1,305,536	219,990	122,255

NOTE 5 – PROFIT FROM OPERATIONS

Profit from Operations has been arrived at after charging:

	12/31/2005	12/31/2004
	Consolidated EURO	Consolidated EURO
Depreciation and Amortization	116,115	73,882
Staff Costs (see note6)	3,110,460	3,677,024

NOTE 6 – STAFF COSTS

The average monthly number of employees was:

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

	12/31/2005	12/31/2004
Operations and Administration	35	35
Sales and Marketing	7	6

Their aggregate remuneration comprised:

	12/31/2005	12/31/2004
	Consolidated	Consolidated
	EURO	EURO
Wages and Salaries	2,721,918	3,320,766
Social Security Costs	358,442	335,237
401(k) expenses	30,100	21,021

NOTE 7 – EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing net income (loss) by the sum of the weighted average common and common equivalent shares outstanding during the year. Common equivalent shares consist of stock options using the Treasury Stock method. Common equivalent shares are excluded from the earnings per share calculation if their effect is anti-dilutive. As the Company recorded a loss for the year ended December 31, 2004 no common equivalent shares were included in diluted weighted-average common shares outstanding for that year.

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

	12/31/2005	12/31/2004
	Consolidated	Consolidated
	EURO	EURO
Earnings		
Net profit/(loss) for the year retained for equity shareholders	1,151,374	(526,216)
Number of shares		
Weighted average number of ordinary shares used to calculate basic earnings per share	5,552,986	5,507,790
Effect of dilutive potential shares: Stock options	106,000	--
Weighted average number of ordinary shares used to calculate dilutive earnings per share	5,658,986	5,507,790

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – INTANGIBLE FIXED ASSETS

	Website Development Costs Euros	Software Costs Euros	Total Costs Euros
Cost			
At December 31, 2004	704,085	280,845	984,930
Exchange differences	(6,983)	(1,521)	(8,504)
Additions	79,832	2,212	82,044
At December 31, 2005	776,934	281,536	1,058,470
Depreciation			
At December 31, 2004	642,940	272,967	915,907
Exchange differences	(19,253)	(1,328)	(20,581)
Charge for the year	42,455	5,008	47,463
At December 31, 2005	666,142	276,647	942,789
Net book value			
At December 31, 2004	61,145	7,878	69,023
At December 31, 2005	110,792	4,889	115,681

The amortization period for the website development costs incurred is three years.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – TANGIBLE FIXED ASSETS

	Computers and Equipment Euros	Fixtures and Furniture Euros	Leasehold Improvement Euros	Total Costs Euros
Cost				
At December 31, 2004	1,018,727	161,639	32,748	1,213,114
Exchange differences	(2,571)	(948)	(769)	(4,288)
Additions	85,667	31,555	20,724	137,946
At December 31, 2005	1,101,823	192,246	52,703	1,346,772
Depreciation				
At December 31, 2004	970,495	113,946	31,448	1,115,889
Exchange differences	(14,193)	(7,712)	(417)	(22,322)
Charge for the year	45,639	21,588	1,425	68,652
At December 31, 2005	1,001,941	127,822	32,456	1,162,219
Net book value				
At December 31, 2004	48,232	47,693	1,300	97,225
At December 31, 2005	99,882	64,424	20,247	184,553

NOTE 10 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES**Accounts Receivable**

Net Accounts Receivable consists of the following (€):

	12/31/2005 Consolidated EURO	12/31/2004 Consolidated EURO
Gross Accounts Receivable	765,283	721,906
Less: Allowance for Doubtful Accounts	(229,822)	(209,364)
Net Accounts Receivable	535,461	512,542

All accounts receivable are due within one year of the respective dates. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable.

Bad debt expense in 2005 amounted to Euro 59,009 (2004: Income from release of bad debts allowances Euro 28.619).

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and positive bank balances held by the consolidated companies.

Credit Risk

The Company's principal financial assets are cash and accounts receivable which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its accounts receivable. The amount presented in the balance sheet is net of allowances for doubtful accounts, estimated by the Company's management based on a number of factors including the aging of the receivable portfolio as well as customer payment trends.

The artnet Group has no significant concentration of credit risk, with exposure spread over its large number of customers comprised of individuals and entities dealing in the fine art market.

Accounts payable

Accounts payable is principally comprised of amounts outstanding for ongoing costs. The average credit period taken for accounts payable is 45 days. The carrying amount of accounts payable approximates their fair value.

NOTE 11 – TAXES AND DEFERRED TAXES

The income taxes of Euro 35,898 recognized in 2005 relate to the alternative minimum tax (AMT) of Artnet Corp. for federal and New York state income taxes.

There are no material temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Therefore no deferred taxes have been recognized on temporary differences in the periods presented.

At the balance sheet date Artnet Corp. has unused tax losses of Euro \$19,704,000 available for offset against future profits. No deferred tax asset has been recognized in respect to these tax losses due to the unpredictability of future profit streams.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – PROVISIONS AND ACCRUALS

	12/31/2004 Euros	Currency Translation Euros	Utilization Euros	Release Euros	Additional Provisions Euros	12/31/2005 Euros
Sales tax payable	3,527		(3,527)		4,906	4,906
Accrued Vacation	32,196		(32,196)		39,708	39,708
Bonus Payments Prior Period	67,158		(67,158)		122,019	122,019
Payroll Tax (1) Other	62,407	9,367				71,774
Outstanding accruals	114,202	16,081	(36,062)	(7,414)	52,319	139,126
Rent Amortization	30,323	5,010	(8,732)		17,836	44,437
Commission Legal	54,602		(54,602)		59,107	59,107
Settlement (2) Supervisory board	54,834		(54,834)			0
Audit and Financial Preparation	60,489		(26,147)		9,930	44,272
	36,000		(36,000)		46,710	46,710
Total	515,738	30,458	(319,258)	(7,414)	352,535	572,059

(1) Artnet Corp. is currently reviewing a prior year payroll tax inquiry from New York State regarding a refund given to the Company in 2001. Artnet Corp. has accrued Euro 71,774 for expected payments as a result of the inquiry.

(2) In 2005, artnet accrued Euro 54,834 in accrued expense for an outstanding legal settlement. The remainder 60,057 was accounted for in accounts payable as it was paid out over the course of the year.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – SHARE CAPITAL

	12/31/2005	12/31/2004
Authorized ordinary shares at no par value (calculated value Euro 1.00 per share)	5,631,067	5,631,067
Issued and fully paid ordinary shares at no par value (calculated value Euro 1.00 per share)	5,552,986	5,552,986
Treasury shares at no par value	78,081	78,081

The Company has one class of ordinary bearer shares which carry no right to fixed income.

Authorized Capital

By resolution of the shareholder's meeting held on July 6, 2004, the Executive Board of artnet AG was authorized, subject to consent of the Supervisory Board, to increase the capital on or before July 5, 2009, by up to a total amount of € 2,800,000 through the issuance of new common shares up to 2,800,000 in return for contributions in kind or in cash. In 2004 and 2005 no common shares were issued under this new Authorized Capital.

Conditional Capital

At the Shareholders' Meetings of February 23, 1999, and April 6, 1999, shareholders agreed to create Conditional Capital I to provide for an employee stock option plan consisting of 435,000 new bearer shares of common stock with a calculated nominal value of € 1.00 each. Of this amount, up to 285,000 shares are available for the issuance of options to the employees of the Company and affiliated entities, and up to 150,000 shares are available for the issue of options to the members of management of the Company and affiliated entities.

Treasury shares

By resolution of the Annual Shareholders' Meeting held on July 6, 2004, the Executive Board was authorized to acquire, on or before January 5, 2006, shares of artnet AG on the condition that such share purchases do not account for more than 10 % of the Company's common stock.

As of December 31, 2005 and 2004 artnet AG held 78,081 of its own shares, representing 1.4 % of common stock.

NOTE 14 – OPERATING LEASE ARRANGEMENTS

Artnet Corp. leases its New York office facility under a non-cancelable operating lease that continues through March 31, 2012. artnet AG leases its Berlin office under a non-cancelable operating lease continuing through December 31, 2010. Future minimum rental payments required as of December 31, 2005 are as follows:

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

	Euros
Within one year	252,370
Between two and five years	1,088,618
After more than five years	311,243
	1,652,231

Rent expenses for the Group amounted to Euro 284,655 and Euro 246,048 for the years ended December 31, 2005 and 2004, respectively.

NOTE 15- SHARE BASED PAYMENTS
Equity-settled stock option plan

The Company's 1999 stock option plan consists of 435,000 of common stock with a nominal value of € 1.00 each. Of this amount, up to 285,000 shares are available to the employees of the Company and affiliated entities, and up to 150,000 shares are available to the members of management of the Company and affiliated entities. Stock options were granted since 1999 only to management and employees of Artnet Corp.

These shares are to be issued at a price that corresponds to the lower of the average stock exchange quotation over the last ten bank workdays before the day of the grant. The options cannot be exercised for two years after date of grant, become vested and exercisable in four equal annual installments following the expiration of the two year holding period and expire ten years after being granted. The Plan further provides that in order to exercise an option, the stock exchange price last determined before the day of the intended exercise of the option must exceed the exercise price by at least ten percent. Furthermore, options are forfeited if the option holder leaves the Group with a 90 day expiration period for options that have become vested before the termination date.

For stock options granted until May 15, 1999 with exercise prices below market value on the date of grant the costs were allocated as expenses over the vesting period of the options that ended in May 2004. The Group recorded an expense of Euro 201,890 for the options issued in 1999 that vested in 2004.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

	Weighted average Exercise price 12/31/2004 (in Euros)		Weighted average Exercise price 12/31/2005 (in Euros)	
	Options		Options	
Outstanding at beginning of period	271,750	3.65	248,750	3.23
Granted during the period	50,000	1.00	34,000	3.71
Forfeited during the period	73,000	3.25	43,500	2.15
Outstanding at the end of period	248,750	3.23	239,250	3.50
Exercisable at the end of the period	176,250	4.14	170,250	3.97

There were no options exercised during the years ended December 31, 2005 and December 31, 2004. The options outstanding at the end of December 31, 2005 had a weighted average exercise price of 3.50, and a weighted average remaining contractual life of 5.79.

The fair value of the Group's stock-option awards was estimated as of the date of grant using the Black-Scholes option-price model with the following assumptions:

	12/31/2005	12/31/2004
Expected volatility	75%	104%
Expected Life	4	4
Risk-free interest rate	4.39%	3.90%
Expected dividends	-	-

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous years.

The Company recognized total expenses of 14,420 Euros and 209,728 Euros related to the equity-settled share based option plan in 2005 and 2004, respectively.

NOTE 16 – DEFINED CONTRIBUTION PLANS

The subsidiary Artnet Corp. has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code of the USA for all qualifying employees. The assets of the plan are held separately from those of Artnet Corp. in funds under control of trustees. Participating employees may contribute up to 100% of their annual salary but not more than statutory limits. The Company has a discretionary matching contribution each year. In the years ended December 31, 2005 and 2004, the Company's matching contributions were Euro 30,100 and Euro 21,021, respectively.

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – CASH FLOW STATEMENT

The loan payments to shareholders in the cash flows from financing activities include interest payments of Euro 28,058 in 2005 and Euro 55,211 in 2004.

NOTE 18 – FEES OF STATUTORY AUDITOR

Auditor's fees for the audit of the Company and artnet Group amounted to Euro 32,000 in 2005. For tax advisory services by the auditor Euro 8,000 and for review and other certification services by the auditor Euro 14,000 are recognized as expenses for 2005.

NOTE 19 – RELATED PARTY TRANSACTIONS

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

Executive Board

Hans Neuendorf is CEO of artnet AG and a director of Artnet Worldwide Corporation. In the fiscal years 2005 and 2004, Mr. Neuendorf received remuneration of Euro 297,000 and 286,000, respectively. During the years 1999, 2001 and 2002, Mr. Neuendorf did not receive any remuneration from the Company. Accordingly, the Supervisory Board approved total payments of Euro 675,000 to account for the remuneration owed to Mr. Neuendorf by the Company for those business years. The resulting liability was offset against previous payments to Mr. Neuendorf in the consolidated financial statements. As of December 31, 2005 the Company owed Mr. Neuendorf a net liability of Euro 243,941. The Supervisory Board has agreed that the Company will make payments on the balance over a 36 month period. Mr. Neuendorf or companies controlled by him own 1,456,185 shares of artnet AG.

During the year ended December 31, 2001, Artnet Corp. entered into a \$3 million Split-Dollar Life Insurance policy with the Mass Mutual Insurance Company for the benefit of Mrs. Caroline Neuendorf, Mr. Neuendorf's spouse. The monthly insurance premiums of \$4,220.90 are paid by the Artnet Corp. and recorded as a loan to Mr. Neuendorf. Artnet Corp. maintains an interest in the policy up to the amount it has paid in premiums. Upon Mr. Neuendorf's death, proceeds from the insurance benefit will be used to repay the loan to Artnet Corp. The balance of the proceeds will be disbursed to Mrs. Neuendorf. As of December 31, 2005 as a result of advances for the Split-Dollar Life Insurance policy, Mr. Neuendorf has an outstanding balance to Artnet Corp. of Euro 149,694. For necessary expenditures, Mr. Neuendorf also received advances from Artnet Corp. in prior years in the amount of Euro 32,062 as of December 31, 2005.

Supervisory Board

John D. Hushon, Naples/Florida, Chairman
Dr. Christian Dohm, Munich, Vice Chairman
Klaus-Jochen Schaeffer, Hamburg

The supervisory board members' remuneration for 2005 amounted to Euro 33,750 as follows:

NOTES TO 2005 CONSOLIDATED FINANCIAL STATEMENTS

	12/31/2005
	<u>Euros</u>
Mr. Hushon:	15,000
Dr. Dohm	11,250
Mr. Schaeffer	7,500

Mr. Schaeffer, or companies controlled by him, own 600,000 shares of artnet AG. In 2001 Mr. Schaeffer provided a series of loans to the Company. The loans carry an interest rate of 8% per annum. Interest expense for 2005 amounted to Euro 28,058 (2004: Euro 30,029). As of December 31, 2005 the loans total Euro 138,661 including interest.

In 2005, the law firm of Dr. Dohm invoiced fees for legal and tax consulting and traveling expenses in the amount of Euro 20,000 to the Company.

Other related party transactions

The son of Mr. Neuendorf, Jacob Pabst, is working for Artnet Corp. as an IT-consultant. The fees charged by Mr. Pabst to Artnet Corp. in 2005 amounted to Euro 57,311.

NOTE 20 - REPORT ON POST-BALANCE SHEET EVENTS

No reportable events of significant importance have occurred after the balance sheet date.

NOTE 21 – German Code of Corporate Governance

The German federal government published the German Code of Corporate Governance in February 2002. It was last amended in June 2005. The Code contains statutory requirements and a number of recommendations and suggestions. Only the legal requirements are binding for German companies. With regard to the recommendations, the German Stock Corporate Act, section 161, requires that listed companies publicly state every year the extent to which they comply with them. In December 2002, the Executive Board and the Supervisory Board issued the required compliance statement for the first time. The statement was last updated on December 22, 2005. These statements are available on the website of the Company.

Berlin, March 27, 2006

Chief Executive Officer
Hans Neuendorf

Independent Auditor's Report

We have audited the consolidated financial statements prepared by **artnet AG, Berlin**, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § (article) 315a Abs. (paragraph) 1 HGB are the responsibility of the parent company's management. 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 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (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 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 Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operation of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Ebner, Stolz, Mönning GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Potthast
Certified auditor

Schützenmeister
Certified auditor

Hamburg, March 27, 2006

artnet AG Supervisory Board

John Hushon, Chairman
Chairman and Managing Director,
North Oak Consultants, Inc.
Washington, D.C.
Former CEO, El Paso Energy International
Company, Houston

Dr. Christian Dohm, Vice Chairman
Chairman PICA Holding AG,
Planegg, Munich

Klaus-Jochen Schaeffer,
Former Managing Director,
Time Systems Germany, Hamburg

artnet AG Executive Board

Hans Neuendorf, Chief Executive Officer

Artnet Worldwide Corp. Board of Directors

Hans Neuendorf, Chief Executive Officer
artnet AG

B. Williams Fine, President,
Artnet Worldwide Corp.

Artnet Worldwide Corp. Management Team

B. William Fine, President
Walter Robinson, Editor-in-Chief, Artnet Magazine

Investor Relations

Investor Information and copies of financial reports can be found at www.artnet.com/ir.

Investor inquiries can be e-mailed to ir@artnet.com or mailed to one of the office addresses.

Stock Information

artnet AG Common Stock is traded on the Frankfurt Stock Exchange's Geregelter Market under the symbol "AYD". Ad hoc notices of important corporate developments are posted at www.artnet.com/ir in German and English.

Security Code

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