



Six Month Report 2006

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artnet – Group management report for the six months ended June 30, 2006

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).

Overview

artnet provides web-based access to important art works from galleries and auctioneers the world over. artnet also provides up-to-the-minute fair market value for works of fine art in what was, heretofore, an inefficient marketplace.

The vehicles are two:

The "galleries" network, comprised of over 1,400 dealers and auctioneers, represents the world's largest standing inventory of fine art with over 100,000 important works, from old masters to contemporary. With a monthly audience of over 1.1 million art professionals, dealers routinely sell works advertised on the network, and, just as significantly, they are able to acquire works from private collectors and other dealers by posting a "wanted to buy."

With over three million auction records, artnet's Price Database is widely subscribed by appraisers, dealers, auctioneers, financiers, and private and government institutions (including the IRS and FBI). Simply put, the Price Database is an illustrated "blue book" with which any subscriber can establish fair market value for a fine artwork. Today, dealers routinely use artnet "comps" (price comparisons for comparable works) from artnet's Price Database when presenting works for sale in galleries and at auction. In fact, Sotheby's began a program two years ago in New York where all fine art lots on sothebys.com are linked to a branded artnet "comp", or "sales history."

Operating Financial Summary

Overview of financial information as of June 30, 2006

During the first six months of 2006, artnet showed an increase in both revenue and net profit as compared to the same period a year ago. The Company experienced a growth in revenues of 26% in the first half of the year, which combined with cost controls, produced a net profit increase of 70% from \$701,100 in the second quarter of 2005 as compared to \$1,192,300 in the second quarter of 2006.

FINANCIAL RESULTS

The Company's business is primarily conducted in U.S. dollars. The majority of artnet'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 \$4,845,000 and \$3,838,000 for the six months ended June 30, 2006 and 2005, respectively, representing an increase of \$1,007,000 or 26%. In Euro terms, total revenue was Euro 3,944,000 and Euro 2,987,000 for the six months ended June 30, 2006 and 2005, respectively.

Online Gallery Network

Online Gallery Network revenue increased by 28% to \$2,242,000 for the six months ended June 30, 2006 from \$1,758,000 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 Company continued to improve the functionality of its website throughout the first half of year which, combined with continued growth in the art market, has contributed to the revenue growth.

Price Database Revenue

Price Database revenue increased by 28% to \$2,019,000 for the six months ended June 30, 2006 up from \$1,581,000 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 the Company's two products, Market Alert, which alerts the user as to when a particular artist is being sold at auction or through the online gallery network, and the Imageless Search. The increase is primarily the result of growth in the number of active users as well as upgrades to higher levels of subscription packages.

Banner Advertising revenue

Advertising revenue increased by 17% to \$584,000 for the six months ended June 30, 2006 up from \$499,000 for the same period a year ago. Advertising revenue consists of tiles 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 during the first six months of the year as well as the creation of new positions which are available for sale on the website.

Cost of Revenue

Cost of Revenue was \$924,000 and \$822,000 for the six months ended June 30, 2006 and 2005, respectively, representing an increase of \$102,000 or 12%. 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 was primarily the result of increased credit card transactions costs associated with a larger volume of credit card transactions as well as increased production costs associated with servicing a larger number of gallery members. Additionally, during the first half of the year, the Company hired a full-time magazine editor in Germany to oversee the artnet.de magazine which also contributed to the increase. Cost of Revenue was Euro 752,000 and Euro 640,000 for the six months ended June 30, 2006 and 2005, respectively.

Operating Expenses

Selling and Marketing

Selling and Marketing expenses were \$679,000 and \$537,000 for the six months ended June 30, 2006 and 2005 respectively, representing an increase of \$142,000 or 26%. This category includes advertising, marketing and promotional activities and salaries and commissions paid to sales staff. The increase was primarily related to commission costs that increased as a result of the growth in sales. In Euro terms, Selling and Marketing expenses were Euro 553,000 and Euro 418,000 for the six months ended June 30, 2006 and 2005, respectively.

General and Administrative

General and Administrative expenses were \$1,644,000 and \$1,529,000 for the six months ended June 30, 2006 and 2005 respectively, representing an increase of \$115,000 or 8%. 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 is primarily a result of the Company's continued focus on building the corporate infrastructure in the Berlin office as well as network maintenance costs related to the website. In Euro terms, General and Administrative expenses were Euro 1,338,000 and Euro 1,190,000 for the six months ended June 30, 2006 and 2005, respectively.

Product Development

Product Development expenses were \$291,000 and \$164,000 for the six months ended June 30, 2006 and 2005, respectively, representing an increase of \$127,000 or 77%. 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. Product development expenses are net of capitalization of major site and other product development efforts which amounted to \$50,000 in the first six months of 2006. The increase is primarily the result of work related to improving the design, functionality and speed of the website as well as continued work on new product development. The Company anticipates that it will continue to devote resources to product development in the future as it adds new features with improved functionality as well as new product lines to the site. In Euro terms, Product Development expenses were Euro 237,000 and Euro 128,000 for the six months ended June 30, 2006 and 2005, respectively.

Non-Cash Compensation Expense

Non-Cash Compensation expense was \$14,000 and \$5,000 for the six months ended June 30, 2006 and 2005, respectively. Non-cash compensation relates to stock option expense that was recorded in accordance with 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 \$97,000 and \$64,000 for the six months ended June 30, 2006 and 2005, respectively, representing an increase of \$33,000 or 52%. Depreciation and Amortization Expenses relate to computer equipment, software purchases, website development and leasehold improvements. The increase was primarily due to website development and equipment purchases completed during the years 2004 and 2005. In Euro terms, Depreciation and Amortization expenses were Euro 79,000 and Euro 50,000 for the six months ended June 30, 2006 and 2005, respectively.

Non Operating Items

Interest Expense

Interest expense was (\$6,300) and (\$20,100) for the six months ended June 30, 2006 and 2005, respectively. Interest expense represents interest on loans due to shareholders.

Asset Position, Liquidity and Capital Resources

The Company increased its cash and cash equivalents from \$1,175,000 as of December 31, 2005, to \$2,011,000 as of June 30, 2006 an increase of \$836,000 or 71%. The increase is the result of strong sales performance in the first half of the year as well a continued commitment by the Company to control and manage costs. The increase was offset by a reduction in accounts payable, accrued liabilities, current income tax liabilities, and liability due to shareholder of \$329,000 in the first six months of 2006.

The positive net cash flow provided by operating activities was \$1,068,000 as of June 30, 2006 as compared to \$668,000 in the prior year. The increase is primarily attributable to the profit growth of artnet as well as an increase in depreciation and an increase in deferred revenue related to the growth in sales.

The net cash flows used for investing activities were \$160,000 and \$161,000 for the six months ended June 30, 2006 and 2005, respectively. Purchase of property and equipment primarily related to computer equipment that was purchased to support the growth in the gallery memberships as well as upgrading existing computers in the New York office. Additionally, the Company made leasehold improvements to the New York office during the first quarter of 2006. The purchase of intangible assets was primarily the result of capitalization for website design and development. The Company anticipates the website development will continue throughout the year.

The net cash flows used for financing activities were \$16,000 and \$41,000 for the six months ended June 30, 2006 and 2005, respectively, and related primarily to shareholder 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 June 30, 2006 and 2005, respectively. For the first six months of 2006, the average rate was .8141 euros/dollar as compared to .8290 euros/dollar as of the first six months of 2005 representing an decrease of (2%). Currency translation for the balance sheet is based on the exchange rate at the end of the period. As of June 30, 2006, the rate was .7969 euros/dollar as compared to .8444 at December 31, 2005, thus representing an exchange differential of (6%).

artnet employee stock option plan

The employees of artnet held 239,250 stock options as of June 30, 2006, of which 193,750 were exercisable. Of these 239,250 stock options the management of Artnet Worldwide Corp. held 150,000 as of June 30, 2006, of which 147,000 were exercisable.

artnet Treasury Stock

artnet held 78,081 treasury shares of stock representing 1.4 % of the common stock as of June 30, 2006 and December 31, 2005.

Employees

As of June 30, 2006, the Company had 46 full time employees as compared to 41 in the prior year. Additionally, the Company had eight sales consultants working on commission as compared to five in the prior year and thirteen part-time employees as compared to six at June 30, 2005.

OUTLOOK

The Company's expectation for future growth

With over 1,400 active gallery participants from 41 countries and more than 5,400 Price Database subscribers, artnet enjoys a diversified, international client base.

I would also point out that, in the last quarter, the art market has remained strong, vicissitudes in the Dow and real estate markets notwithstanding. I believe the market portends continued growth for the Company in the next two quarters, and we are forecasting increased revenue and net income.

We will continue to invest in infrastructure and product development while striving for cost and operational efficiencies.

Berlin, July 28, 2006

The CEO
Hans Neuendorf

artnet AG
CONSOLIDATED BALANCE SHEETS
As of June 30, 2006 and December 31, 2005

	6/30/2006 Consolidated USD	12/31/2005 Consolidated USD	6/30/2006 Consolidated EURO	12/31/2005 Consolidated EURO
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 2,011,105	\$ 1,175,379	1,602,650	992,490
Accounts receivable-net	849,940	634,132	677,317	535,461
Prepays and other current assets	<u>192,847</u>	<u>115,358</u>	<u>153,680</u>	<u>97,408</u>
Total current assets	3,053,892	1,924,869	2,433,647	1,625,359
<u>NONCURRENT ASSETS</u>				
Property and Equipment	245,334	218,561	195,507	184,553
Intangible assets	147,842	136,998	117,815	115,681
Security deposit	185,202	185,202	147,587	156,385
Due from shareholder	<u>240,575</u>	<u>215,249</u>	<u>191,714</u>	<u>181,756</u>
Total noncurrent assets	<u>818,953</u>	<u>756,010</u>	<u>652,623</u>	<u>638,375</u>
TOTAL ASSETS	<u>\$ 3,872,845</u>	<u>\$ 2,680,879</u>	<u>3,086,270</u>	<u>2,263,734</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY/(DEFICIT)</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	286,363	582,818	228,203	492,132
Accrued expenses	748,873	677,474	596,777	572,059
Current income tax liabilities	--	44,620	--	37,677
Due to shareholder	104,531	164,212	83,301	138,661
Deferred revenue	<u>1,416,710</u>	<u>1,088,754</u>	<u>1,128,976</u>	<u>919,344</u>
TOTAL LIABILITIES	<u>2,556,477</u>	<u>2,557,878</u>	<u>2,037,257</u>	<u>2,159,873</u>
<u>SHAREHOLDERS' EQUITY/(DEFICIT)</u>				
Common stock	5,941,512	5,941,512	5,631,067	5,631,067
Treasury stock	(269,241)	(269,241)	(264,425)	(264,425)
Additional paid-in capital	51,348,447	51,334,420	50,206,412	50,194,993
Accumulated deficit	(56,875,538)	(58,306,652)	(55,451,948)	(56,603,322)
Current income/(loss)	1,192,348	1,431,114	970,679	1,151,374
Foreign currency translation adjustment	<u>(21,160)</u>	<u>(8,152)</u>	<u>(42,772)</u>	<u>(5,826)</u>
TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)	<u>1,316,368</u>	<u>123,001</u>	<u>1,049,013</u>	<u>103,861</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/ (DEFICIT)	<u>3,872,845</u>	<u>2,680,879</u>	<u>3,086,270</u>	<u>2,263,734</u>

artnet AG
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Six Months ended June 30, 2006 and 2005				For the Three Months ended June 30, 2006 and 2005			
	6/30/2006 Consolidated USD	6/30/2005 Consolidated USD	6/30/2006 Consolidated EURO	6/30/2005 Consolidated EURO	6/30/2006 Consolidated USD	6/30/2005 Consolidated USD	6/30/2006 Consolidated EURO	6/30/2005 Consolidated EURO
Revenue								
Online Gallery Network	\$ 2,241,870	\$ 1,757,610	1,825,084	1,367,930	\$ 1,139,619	\$ 910,751	927,752	708,828
Price Database	2,018,729	1,581,350	1,643,427	1,230,749	1,064,319	812,203	866,451	632,129
Advertising	583,937	498,556	475,377	388,021	302,457	267,524	246,227	208,211
Total revenue	<u>4,844,536</u>	<u>3,837,516</u>	<u>3,943,888</u>	<u>2,986,700</u>	<u>2,506,395</u>	<u>1,990,478</u>	<u>2,040,430</u>	<u>1,549,168</u>
Cost of Net Revenues	<u>923,575</u>	<u>821,757</u>	<u>751,873</u>	<u>639,599</u>	<u>479,403</u>	<u>406,613</u>	<u>390,277</u>	<u>316,480</u>
Gross profit	<u>3,920,961</u>	<u>3,015,759</u>	<u>3,192,015</u>	<u>2,347,101</u>	<u>2,026,992</u>	<u>1,583,865</u>	<u>1,650,153</u>	<u>1,232,688</u>
Other operating expenses								
Selling and Marketing	678,704	536,699	552,526	417,770	364,406	268,598	296,659	209,028
General and Administrative	1,643,767	1,529,249	1,338,174	1,190,315	834,980	812,793	679,748	632,591
Product Development	290,851	164,049	236,779	127,678	156,612	73,464	127,496	57,176
Noncash Compensation Expense	14,027	5,439	11,419	4,233	7,176	4,126	5,842	3,211
Depreciation and Amortization	96,635	64,041	78,670	49,842	46,286	31,882	37,681	24,813
Total other operating expenses	<u>2,723,984</u>	<u>2,299,477</u>	<u>2,217,568</u>	<u>1,789,838</u>	<u>1,409,460</u>	<u>1,190,863</u>	<u>1,147,426</u>	<u>926,819</u>
Profit from operations	1,196,977	716,282	974,447	557,263	617,532	393,002	502,727	305,869
Interest Expense	(6,281)	(20,118)	(5,113)	(15,658)	853	(10,281)	694	(8,002)
Interest Income	15,035	1,497	12,240	1,165	12,308	1,057	10,020	823
Other Income	<u>6,517</u>	<u>3,442</u>	<u>5,305</u>	<u>2,679</u>	<u>4,406</u>	<u>1,686</u>	<u>3,587</u>	<u>1,312</u>
Profit Prior to tax provision	<u>1,212,248</u>	<u>701,103</u>	<u>986,879</u>	<u>545,449</u>	<u>635,099</u>	<u>385,464</u>	<u>517,028</u>	<u>300,002</u>
Tax Provision	<u>(19,900)</u>	<u>--</u>	<u>(16,200)</u>	<u>--</u>	<u>(10,600)</u>	<u>--</u>	<u>(8,629)</u>	<u>--</u>
Net Profit	<u>\$ 1,192,348</u>	<u>\$ 701,103</u>	<u>970,679</u>	<u>545,449</u>	<u>\$ 624,499</u>	<u>\$ 385,464</u>	<u>508,399</u>	<u>300,002</u>
Earnings Per Share								
Net Profit per basic share	<u>0.21</u>	<u>0.13</u>	<u>0.17</u>	<u>0.10</u>	<u>0.11</u>	<u>0.07</u>	<u>0.09</u>	<u>0.05</u>
Net Profit per diluted share	<u>0.21</u>	<u>0.13</u>	<u>0.17</u>	<u>0.10</u>	<u>0.11</u>	<u>0.07</u>	<u>0.09</u>	<u>0.05</u>
Weighted Average Shares								
Basic	<u>5,552,986</u>	<u>5,552,986</u>	<u>5,552,986</u>	<u>5,552,986</u>	<u>5,552,986</u>	<u>5,552,986</u>	<u>5,552,986</u>	<u>5,552,986</u>
Diluted	<u>5,658,986</u>	<u>5,552,986</u>	<u>5,658,986</u>	<u>5,552,986</u>	<u>5,658,986</u>	<u>5,552,986</u>	<u>5,658,986</u>	<u>5,552,986</u>

artnet AG
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (USD)
For the Periods Ended June 30, 2006 and December 31, 2005

	Common Stock		Additional Paid-in Capital	Treasury Stock	Deferred compensation	Accumulated Deficit	Foreign Currency Translation	Total
	Shares Issued	Amount						
<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>
Net Income						1,192,348		1,192,348
Foreign Currency Translation							(13,008)	(13,008)
Non-cash Compensation			14,027					14,027
<u>BALANCE - June 30, 2006</u>	<u>5,631,067</u>	<u>5,941,512</u>	<u>51,348,447</u>	<u>(269,241)</u>	<u>--</u>	<u>(55,683,190)</u>	<u>(21,160)</u>	<u>1,316,368</u>

artnet AG
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (EURO)
For the Periods Ended June 30, 2006 and December 31, 2005

	Common Stock		Additional Paid-in Capital	Treasury Stock	Deferred compensation	Accumulated Deficit	Foreign Currency Translation	Total
	Shares Issued	Amount						
<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>
Net Income						970,679		970,679
Foreign Currency Translation							(36,946)	(36,946)
Non-cash Compensation			11,419					11,419
<u>BALANCE - June 30, 2006</u>	<u>5,631,067</u>	<u>5,631,067</u>	<u>50,206,412</u>	<u>(264,425)</u>	<u>--</u>	<u>(54,481,269)</u>	<u>(42,772)</u>	<u>1,049,013</u>

artnet AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2006 and 2005

	6/30/2006 Consolidated USD	6/30/2005 Consolidated USD	6/30/2006 Consolidated EURO	6/30/2005 Consolidated EURO
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Net Profit	\$ 1,192,348	\$ 701,103	970,679	545,449
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:				
Depreciation and amortization	96,635	64,041	78,670	49,842
Provision for doubtful accounts	21,946	17,787	17,866	13,843
Non-cash compensation	14,027	5,439	11,419	4,233
Changes in operating assets and liabilities:				
Accounts receivable	(237,754)	11,025	(159,722)	(56,168)
Prepaid and other current assets	(77,489)	(57,851)	(56,272)	(57,867)
Security deposits	--	--	8,798	(17,564)
Accounts payable	(296,455)	(128,001)	(253,705)	(34,120)
Accrued expenses and tax liabilities	26,779	(69,185)	(12,959)	9,269
Deferred Revenue	327,956	123,995	209,632	202,563
TOTAL ADJUSTMENTS	(124,355)	(32,750)	(156,273)	114,031
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,067,993	668,353	814,405	659,480
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchase of property and equipment	(79,413)	(96,944)	(64,648)	(75,451)
Purchase of intangible assets	(54,839)	(38,721)	(44,644)	(30,136)
Receivables from shareholder, advance	(25,326)	(25,326)	(20,182)	(20,995)
NET CASH USED IN INVESTING ACTIVITIES	(159,578)	(160,991)	(129,475)	(126,582)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Loan Payments to Shareholders	(59,681)	(57,766)	(55,360)	(44,959)
Change in foreign currency translation adjustment	76,079	98,403	(27,037)	(33,648)
NET CASH USED IN FINANCING ACTIVITIES	16,398	40,637	(82,397)	(78,607)
Effects of exchange rate changes on cash	(89,087)	(6,283)	7,626	32,017
NET INCREASE IN CASH AND CASH EQUIVALENTS	835,726	541,716	610,160	486,308
CASH – Beginning	1,175,379	392,510	992,490	288,165
CASH – Ending	\$ 2,011,105	\$ 934,226	1,602,650	774,473