



Three Month Report 2006

Index

Management Discussion and Analysis for the Three Months ended March 31, 2006

Consolidated Balance Sheet

Consolidated Income Statement

Statement of Changes in Shareholder's Equity (USD)

Statement of Changes in Shareholder's Equity (EURO)

Consolidated Cash Flow Statement

artnet – Group management report for the three months ended March 31, 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 Markt 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 services to fine art professionals the world over, improving industry communications and bringing transparency with up to the minute pricing information. The vehicles here are two:

The "**galleries**" network, which comprises over 1,400 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."

Operating Financial Summary

Overview of financial information as of March 31, 2006

During the first three months of 2006, artnet showed an increase in both revenue and operating profit as compared to the same period a year ago. The Company experienced a growth in revenues of 27% in the first quarter of 2006, which combined with cost controls, produced a net profit increase of 80% from \$315,600 in the first quarter of 2005 as compared to \$567,800 in the first 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 \$2,338,000 and \$1,847,000 for the three months ended March 31, 2006 and 2005, respectively, representing an increase of \$491,000 or 27%. In euro terms, total revenue was Euro 1,950,000 and Euro 1,409,000 for the three months ended March 31, 2006 and 2005, respectively.

Online Gallery Network

Online Gallery Network revenue increased by 30% to \$1,102,000 for the three months ended March 31, 2006 from \$847,000 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 improved site functionality and continued growth in the art market.

Price Database Revenue

Price Database revenue increased by 24% to \$954,000 for the three months ended March 31, 2006 up from \$769,000 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 22% to \$281,000 for the three months ended March 31, 2006 up from \$231,000 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 three months of 2006.

Cost of Revenue

Cost of Revenue was \$444,000 and \$415,000 for the three months ended March 31, 2006 and 2005, respectively, representing an increase of \$29,000 or 7%. 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 Online Gallery Network website production costs related to servicing a larger number of gallery members as well as credit card transaction costs related to an increased volume of credit card transactions. Cost of Revenue was Euro 371,000 and Euro 317,000 for the three months ended March 31, 2006 and 2005, respectively.

Operating Expenses

Selling and Marketing

Selling and Marketing expenses were \$314,000 and \$268,000 for the three months ended March 31, 2006 and 2005 respectively, representing an increase of \$46,000 or 17%. 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 262,000 and Euro 205,000 for the three months ended March 31, 2006 and 2005, respectively.

General and Administrative

General and Administrative expenses were \$809,000 and \$716,000 for the three months ended March 31, 2006 and 2005 respectively, representing an increase of \$93,000 or 13%. 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 facility costs related to the New York office. In euro terms, General and Administrative expenses were Euro 675,000 and Euro 547,000 for the three months ended March 31, 2006 and 2005, respectively.

Product Development

Product Development expenses were \$134,000 and \$91,000 for the three months ended March 31, 2006 and 2005, respectively, representing an increase of \$43,000 or 47%. 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 \$23,000 in the first three 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 112,000 and Euro 69,000 for the three months ended March 31, 2006 and 2005, respectively.

Non-Cash Compensation Expense

Non-Cash Compensation expense was \$7,000 and \$1,000 for the three months ended March 31, 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 \$50,000 and \$32,000 for the three months ended March 31, 2006 and 2005, respectively, representing an increase of \$18,000 or 56%. 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 42,000 and Euro 25,000 for the three months ended March 31, 2006 and 2005, respectively.

Non Operating Items

Interest Expense

Interest expense was (\$7,100) and (\$9,800) for the three months ended March 31, 2006 and 2005, respectively. Interest expense represents interest on loans due to shareholders.

Asset Position, Liquidity and Capital Resources

The Company reduced its debt position and decreased its accounts payable, accrued liabilities, current income tax liabilities, and liability due to shareholder by \$335,000 in the first quarter of 2006. These payments notwithstanding, the Company was still able to increase its cash and cash equivalents from \$1,175,000 as of December 31, 2005, to \$1,357,000 as of March 31, 2006 primarily due to strong sales and continued focus on cost savings.

The positive net cash flow provided by operating activities was \$303,000 as of March 31, 2006 as compared to \$332,000 in the prior year quarter. The decrease is primarily attributable to the payments resulting in the reduction of accrued liabilities and accounts payables.

The net cash flows used for investing activities were \$93,000 and \$69,000 for the three months ended March 31, 2006 and 2005, respectively. Purchase of property and equipment primarily related to leasehold improvements that were made to the New York office during the first quarter of 2006 as well as computer equipment that was purchased to support the continued growth in the gallery website memberships. The purchase of intangible assets was primarily the result of capitalization for the website design and development. The Company anticipates the website development will continue in the coming years.

The net cash flows used for financing activities were \$54,000 and \$42,000 for the three months ended March 31, 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 March 31, 2006 and 2005, respectively. For the first quarter of 2006, the average rate was .8342 euros/dollar as compared to .7631 euros/dollar as of the first quarter 2005 representing an increase of 9%. Currency translation for the balance sheet is based on the exchange rate at the end of the period. As of March 31, 2006, the rate was .8242 euros/dollar as compared to .8444 at December 31, 2005, thus representing an exchange differential of (2%).

artnet employee stock option plan

The employees of artnet held 239,250 stock options as of March 31, 2006, of which 190,250 were exercisable. Of these 239,250 stock options the management of Artnet Worldwide Corp. held 150,000 as of March 31, 2006, of which 146,000 were exercisable.

artnet Treasury Stock

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

Employees

As of March 31, 2006 the Company had 46 full time employees as compared to 41 in the prior year quarter. Additionally, the Company had nine sales consultants working on commission as compared to six in the prior year quarter and seven part-time employees as compared to three at March 31, 2005.

OUTLOOK

The Company's expectation for future growth

Today's art market is approximately twenty times larger than it was in 1990, (Marc Spiegler "The Expanded Art World," 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.

With over 1,400 gallery participants from 41 countries and more than 5,000 Price Database subscribers, artnet enjoys a diversified, international client base.

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.

arnet 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, May 2, 2006

The CEO
Hans Neuendorf

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

	3/31/2006 Consolidated USD	12/31/2005 Consolidated USD	3/31/2006 Consolidated EURO	12/31/2005 Consolidated EURO
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,357,223	\$ 1,175,379	1,124,052	992,490
Accounts receivable-net	773,877	634,132	640,925	535,461
Prepays and other current assets	<u>145,559</u>	<u>115,358</u>	<u>120,552</u>	<u>97,408</u>
Total current assets	2,276,659	1,924,869	1,885,529	1,625,359
PROPERTY AND EQUIPMENT, Net				
NONCURRENT ASSETS				
Property and Equipment	245,872	218,561	203,631	184,553
Intangible assets	139,733	136,998	115,727	115,681
Security deposit	185,202	185,202	153,384	156,385
Due from shareholder	<u>227,912</u>	<u>215,249</u>	<u>188,757</u>	<u>181,756</u>
Total noncurrent assets	<u>798,719</u>	<u>756,010</u>	<u>661,499</u>	<u>638,375</u>
TOTAL ASSETS	<u><u>\$ 3,075,378</u></u>	<u><u>\$ 2,680,879</u></u>	<u><u>\$ 2,547,028</u></u>	<u><u>\$ 2,263,734</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY				
CURRENT LIABILITIES				
Accounts payable	\$ 368,633	\$ 582,818	305,302	492,132
Accrued expenses	625,526	677,474	518,060	572,059
Current income tax liabilities	--	44,620	--	37,677
Due to shareholder	139,670	164,212	115,675	138,661
Deferred revenue	<u>1,247,364</u>	<u>1,088,754</u>	<u>1,033,067</u>	<u>919,344</u>
TOTAL LIABILITIES	<u>2,381,193</u>	<u>2,557,878</u>	<u>1,972,104</u>	<u>2,159,873</u>
SHAREHOLDERS' EQUITY				
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	51,341,271	51,334,420	50,200,708	50,194,993
Accumulated deficit	(56,875,538)	(58,306,652)	(55,451,948)	(56,603,322)
Current income	567,849	1,431,114	473,690	1,151,374
Foreign currency translation adjustment	<u>(11,668)</u>	<u>(8,152)</u>	<u>(14,168)</u>	<u>(5,826)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>694,185</u>	<u>123,001</u>	<u>574,924</u>	<u>103,861</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 3,075,378</u></u>	<u><u>\$ 2,680,879</u></u>	<u><u>2,547,028</u></u>	<u><u>2,263,734</u></u>

artnet AG
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months ended March 31, 2006 and 2005

	3/31/2006 Consolidated <u>USD</u>	3/31/2005 Consolidated <u>USD</u>	3/31/2006 Consolidated <u>EURO</u>	3/31/2005 Consolidated <u>EURO</u>
Revenue				0.763050
Online Gallery Network	\$ 1,102,251	\$ 846,859	919,476	646,196
Price Database	954,410	769,147	796,150	586,898
Advertising	281,480	231,032	234,805	176,289
Total revenue	<u>2,338,141</u>	<u>1,847,038</u>	<u>1,950,431</u>	<u>1,409,383</u>
Cost of Net Revenue	<u>444,172</u>	<u>415,144</u>	<u>370,519</u>	<u>316,776</u>
Gross profit	<u>1,893,969</u>	<u>1,431,894</u>	<u>1,579,912</u>	<u>1,092,607</u>
Other operating expenses				
Selling and Marketing	314,298	268,101	262,181	204,574
General and Administrative	808,787	716,456	674,674	546,905
Product Development	134,239	90,585	111,979	69,121
Noncash Compensation Expense	6,851	1,313	5,715	1,002
Depreciation and Amortization	<u>50,349</u>	<u>32,159</u>	<u>42,000</u>	<u>24,539</u>
Total other operating expenses	<u>1,314,524</u>	<u>1,108,614</u>	<u>1,096,549</u>	<u>846,141</u>
Profit from operations	579,445	323,280	483,363	246,467
Interest Expense	(7,134)	(9,837)	(5,951)	(7,506)
Interest Income	2,727	440	2,275	336
Other Income	<u>2,111</u>	<u>1,756</u>	<u>1,761</u>	<u>1,340</u>
Profit Prior to tax provision	<u>577,149</u>	<u>315,639</u>	<u>481,448</u>	<u>240,637</u>
Tax Provision	<u>(9,300)</u>	<u>--</u>	<u>(7,758)</u>	<u>--</u>
Net Profit	<u>\$ 567,849</u>	<u>\$ 315,639</u>	<u>473,690</u>	<u>240,637</u>
Earnings Per Share				
Net Profit per basic share	<u>0.10</u>	<u>0.06</u>	<u>0.09</u>	<u>0.04</u>
Net Profit per diluted share	<u>0.10</u>	<u>0.06</u>	<u>0.08</u>	<u>0.04</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>
Diluted	<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 March 31, 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						567,849		567,849
Foreign Currency Translation							(3,516)	(3,516)
Non-cash Compensation			6,851					6,851
<u>BALANCE - March 31, 2006</u>	<u>5,631,067</u>	<u>5,941,512</u>	<u>51,341,271</u>	<u>(269,241)</u>	<u>--</u>	<u>(56,307,689)</u>	<u>(11,668)</u>	<u>694,185</u>

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (EURO)
For the Periods Ended March 31, 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						473,690		473,690
Foreign Currency Translation							(8,342)	(8,342)
Non-cash Compensation			5,715					5,715
<u>BALANCE - March 31, 2006</u>	<u>5,631,067</u>	<u>5,631,067</u>	<u>50,200,708</u>	<u>(264,425)</u>	<u>--</u>	<u>(54,978,258)</u>	<u>(14,168)</u>	<u>574,924</u>

artnet AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2006 and 2005

	3/31/2006 Consolidated USD	3/31/2005 Consolidated USD	3/31/2006 Consolidated EURO	3/31/2005 Consolidated EURO
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Net Profit	\$ 567,849	\$ 315,639	473,690	240,637
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:				
Depreciation and amortization	50,349	32,159	42,000	24,539
Provision for doubtful accounts	9,812	5,802	8,185	4,427
Non-cash compensation	6,851	1,313	5,715	1,002
Changes in operating assets and liabilities:				--
Accounts receivable	(149,557)	40,992	(113,649)	3,717
Prepaid and other current assets	(30,201)	(21,088)	(23,144)	(27,986)
Accounts payable	(214,185)	(82,547)	(183,344)	(33,380)
Accrued expenses and tax liabilities	(96,568)	(38,898)	(91,676)	(1,855)
Deferred Revenue	158,610	78,960	113,723	103,479
TOTAL ADJUSTMENTS	(264,889)	16,693	(239,188)	73,943
NET CASH PROVIDED BY OPERATING ACTIVITIES	302,960	332,332	234,501	314,580
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchase of property and equipment	(52,480)	(50,634)	(43,778)	(38,636)
Purchase of intangible assets	(27,915)	(6,000)	(23,286)	(4,578)
Receivables from shareholder, advance	(12,663)	(12,662)	(10,487)	(9,805)
NET CASH USED IN INVESTING ACTIVITIES	\$ (93,058)	\$ (69,296)	(77,551)	\$ (53,019)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Loan Payments to Shareholders	(24,542)	(29,010)	(22,986)	(22,465)
Change in foreign currency translation adjustment	(29,555)	(13,353)	19,585	(68,203)
NET CASH USED IN FINANCING ACTIVITIES	(54,097)	(42,363)	(3,401)	(90,668)
Effects of exchange rate changes on cash	26,039	(2,851)	(21,987)	13,583
NET INCREASE IN CASH AND CASH EQUIVALENTS	181,844	217,822	131,562	184,476
CASH – Beginning	1,175,379	392,510	992,490	288,165
CASH – Ending	\$ 1,357,223	\$ 610,332	1,124,052	472,641