

SOTHEBY'S
CONSOLIDATED INCOME STATEMENTS
(Thousands of dollars, except per share data)

Year Ended December 31,	2018	2017	2016
Revenues:			
Agency commissions and fees	\$ 891,774	\$ 809,571	\$ 724,398
Inventory sales	80,808	178,982	62,863
Finance	43,887	50,937	52,716
Other	19,271	17,890	17,965
Total revenues	1,035,740	1,057,380	857,942
Expenses:			
Agency direct costs	184,491	150,133	125,889
Cost of inventory sales	81,103	181,487	81,782
Cost of finance revenues	4,056	19,312	17,738
Marketing	23,897	25,377	19,695
Salaries and related	342,687	318,555	315,640
General and administrative	180,360	172,950	161,356
Depreciation and amortization	27,048	24,053	21,817
Restructuring charges (see Note 25)	10,753	—	—
Voluntary separation incentive programs, net (see Note 24)	—	(162)	(610)
Total expenses	854,395	891,705	743,307
Operating income	181,345	165,675	114,635
Interest income	1,467	1,184	1,294
Interest expense	(39,984)	(32,218)	(30,310)
Extinguishment of debt	(10,855)	—	—
Write-off of credit facility fees	(3,982)	—	—
Non-operating income	4,688	7,045	11,115
Income before taxes	132,679	141,686	96,734
Income tax expense	27,652	25,415	25,957
Equity in earnings of investees	3,591	2,508	3,262
Net income	108,618	118,779	74,039
Less: Net loss attributable to noncontrolling interest	(16)	(17)	(73)
Net income attributable to Sotheby's	\$ 108,634	\$ 118,796	\$ 74,112
Basic earnings per share - Sotheby's common shareholders	\$ 2.10	\$ 2.22	\$ 1.28
Diluted earnings per share - Sotheby's common shareholders	\$ 2.09	\$ 2.20	\$ 1.27

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Thousands of dollars)

Year Ended December 31,	2018	2017	2016
Net income	\$ 108,618	\$ 118,779	\$ 74,039
Other comprehensive (loss) income:			
Currency translation adjustments	(9,510)	13,889	(34,899)
Cash flow hedges	399	2,635	642
Net investment hedges	1,768	(3,059)	16,618
Defined benefit pension plan	(2,235)	14,427	(6,515)
Total other comprehensive (loss) income	(9,578)	27,892	(24,154)
Comprehensive income	99,040	146,671	49,885
Less: Comprehensive loss attributable to noncontrolling interests	(16)	(17)	(73)
Comprehensive income attributable to Sotheby's	<u>\$ 99,056</u>	<u>\$ 146,688</u>	<u>\$ 49,958</u>

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)

December 31,	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 178,579	\$ 544,432
Restricted cash (see Notes 11 and 15)	4,836	361,578
Accounts receivable, net	978,140	795,239
Notes receivable, net	103,834	87,746
Inventory	43,635	74,483
Income tax receivables	3,353	6,601
Prepaid expenses and other current assets (see Note 14)	38,631	32,010
Total current assets	1,351,008	1,902,089
Notes receivable, net	602,389	507,538
Fixed assets, net	386,736	352,035
Goodwill	55,573	50,547
Intangible assets, net	12,993	11,492
Income tax receivables	16,694	324
Deferred income taxes	37,035	35,674
Other long-term assets (see Note 14)	226,660	227,608
Total assets	\$ 2,689,088	\$ 3,087,307
Liabilities and Shareholders' Equity		
Current liabilities:		
Client payables	\$ 997,168	\$ 996,197
Accounts payable and accrued liabilities	101,366	90,298
Accrued salaries and related costs	92,219	94,310
Current portion of long-term debt, net	13,604	308,932
Accrued income taxes	31,169	8,127
Other current liabilities (see Note 14)	13,263	18,762
Total current liabilities	1,248,789	1,516,626
Credit facility borrowings	280,000	196,500
Long-term debt, net	638,786	653,003
Accrued income taxes	19,933	37,651
Deferred income taxes	14,569	15,163
Other long-term liabilities (see Note 14)	45,517	51,424
Total liabilities	2,247,594	2,470,367
Commitments and contingencies (see Note 20)		
Shareholders' equity:		
Common Stock, \$0.01 par value	711	709
Authorized shares—200,000,000		
Issued shares—71,188,120 and 70,830,184		
Outstanding shares—46,346,863 and 52,461,996		
Additional paid-in capital	463,623	453,364
Treasury stock shares, at cost: 24,841,257 and 18,368,188	(839,284)	(554,551)
Retained earnings	888,333	779,699
Accumulated other comprehensive loss	(72,044)	(62,466)
Total shareholders' equity	441,339	616,755
Noncontrolling interest	155	185
Total equity	441,494	616,940
Total liabilities and shareholders' equity	\$ 2,689,088	\$ 3,087,307

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

Year Ended December 31,	2018	2017	2016
Operating Activities:			
Net income attributable to Sotheby's	\$ 108,634	\$ 118,796	\$ 74,112
Adjustments to reconcile net income attributable to Sotheby's to net cash (used) provided by operating activities:			
Extinguishment of debt	10,855	—	—
Write-off of credit facility fees	3,982	—	—
Depreciation and amortization	27,048	24,053	21,817
Deferred income tax benefit	(2,361)	(27,985)	(24,156)
Share-based payments	29,703	23,479	15,216
Net pension benefit	(3,155)	(4,660)	(6,895)
Inventory writedowns and bad debt provisions	10,305	14,902	23,441
Amortization of debt issuance costs	1,736	1,690	1,619
Equity in earnings of investees	(3,591)	(2,508)	(3,262)
Other	1,246	1,077	794
Changes in assets and liabilities:			
Accounts receivable	(278,225)	(297,690)	437,398
Client payables	17,337	451,186	(136,097)
Related party client payables (see Note 27)	—	—	(285,418)
Inventory (see Note 13)	19,335	73,709	29,746
Changes in other operating assets and liabilities (see Note 15)	(20,661)	(7,589)	7,873
Net cash (used) provided by operating activities	(77,812)	368,460	156,188
Investing Activities:			
Funding of notes receivable	(389,064)	(198,481)	(321,127)
Collections of notes receivable	363,494	253,268	305,770
Capital expenditures	(56,824)	(20,694)	(21,363)
Acquisitions, net of cash acquired (see Notes 8 and 9)	(6,094)	(75)	(54,343)
Funding of investments	(257)	(6,542)	(2,200)
Distributions from investees	3,204	4,825	1,925
Proceeds from the sale of equity investment	—	2,125	325
Proceeds from company-owned life insurance	—	2,100	2,182
Settlement of net investment hedges (see Note 12)	(1,747)	29,110	(3,308)
Net cash (used) provided by investing activities	(87,288)	65,636	(92,139)
Financing Activities:			
Proceeds from credit facility borrowings	743,000	181,500	164,500
Repayments of credit facility borrowings	(659,500)	(550,000)	(141,000)
Repayments of York Property Mortgage	(14,258)	(39,667)	(7,302)
Proceeds from the issuance of 2025 Senior Notes (see Note 11)	—	400,000	—
Settlement of 2022 Senior Notes, including call premium (see Note 11)	(307,875)	—	—
Debt issuance and other borrowing costs	(4,482)	(5,729)	(320)
Repurchases of common stock	(284,733)	(44,495)	(359,885)
Purchase of forward contract indexed to Sotheby's common stock	(10,500)	—	—
Dividends paid	—	(2,375)	(1,743)
Funding of employee tax obligations upon the vesting of share-based payments	(10,222)	(16,857)	(5,890)
Net cash used by financing activities	(548,570)	(77,623)	(351,640)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(10,022)	11,252	(35,472)
(Decrease) increase in cash, cash equivalents and restricted cash	(723,692)	367,725	(323,063)
Cash, cash equivalents, and restricted cash at beginning of period	923,926	556,201	879,264
Cash, cash equivalents, and restricted cash at end of period	\$ 200,234	\$ 923,926	\$ 556,201

Supplemental information on non-cash investing and financing activities:

See Note 5 for information regarding non-cash transfers between Accounts Receivable (net) and Notes Receivable (net).

See Note 12 for information regarding derivative financial instruments designated as net investment hedges.

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(Thousands of dollars, except per share data)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2016	\$ 700	\$ 435,696	\$(150,000)	\$ 586,235	\$ (66,204)	\$ 806,427
Net income attributable to Sotheby's				74,112		74,112
Other comprehensive loss					(24,154)	(24,154)
Common stock shares withheld to satisfy employee tax obligations		(5,890)				(5,890)
Restricted stock units vested, net	3	(3)				—
Amortization of share-based payment expense		15,216				15,216
Tax deficiency from share-based payments		(1,342)				(1,342)
Shares and deferred stock units issued to directors		934				934
Repurchases of common stock			(359,885)			(359,885)
Balance at December 31, 2016	703	444,611	(509,885)	660,347	(90,358)	505,418
Net income attributable to Sotheby's				118,796		118,796
Other comprehensive income					27,892	27,892
Stock options exercised	1	1,106				1,107
Common stock shares withheld to satisfy employee tax obligations		(16,857)				(16,857)
Restricted stock units vested, net	5	(5)				—
Amortization of share-based payment expense		23,479				23,479
Shares and deferred stock units issued to directors		999				999
Repurchases of common stock			(44,495)			(44,495)
Other adjustments related to share-based payments		31	(171)	556		416
Balance at December 31, 2017	709	453,364	(554,551)	779,699	(62,466)	616,755
Net income attributable to Sotheby's				108,634		108,634
Other comprehensive loss					(9,578)	(9,578)
Common stock shares withheld to satisfy employee tax obligations		(10,222)				(10,222)
Restricted stock units vested, net	2	(2)				—
Amortization of share-based payment expense		29,703				29,703
Shares and deferred stock units issued to directors		1,280				1,280
Repurchases of common stock			(284,733)			(284,733)
Forward contract indexed to Sotheby's common stock		(10,500)				(10,500)
Balance at December 31, 2018	\$ 711	\$ 463,623	\$(839,284)	\$ 888,333	\$ (72,044)	\$ 441,339

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