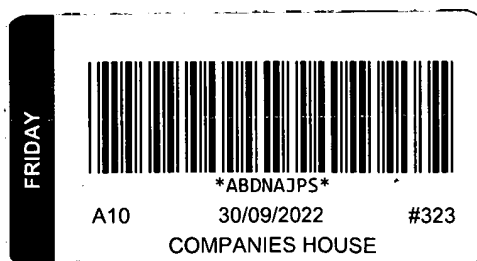


Registered number: 00874867

SOTHEBY'S

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**



SOTHEY'S

COMPANY INFORMATION

Directors	Sebastian Fahey Jayne Louise Franks
Company secretary	Caroline Mylward
Registered number	00874867
Registered office	34-35 New Bond Street London W1A 2AA
Independent auditors	Constantin Chartered accountants and statutory auditor 25 Hosier Lane London EC1A 9LQ
Bankers	HSBC Bank PLC 129 New Bond Street London W1A 2JA

SOTHEBY'S

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SOTHEBY'S

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their Strategic report and the audited financial statements of Sotheby's (the "Company") for the year ended 31 December 2021.

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

Business review

Sotheby's earns commissions by matching buyers and sellers of authenticated works of art through the auction or private sale process.

The art market is influenced over time by the overall strength and stability of the global economy, the financial markets of various countries, geopolitical conditions, and world events, all of which may impact the willingness of potential buyers and sellers to purchase and sell art. In addition, the amount and quality of art consigned for sale is influenced by other factors not within Sotheby's control, and many consignments often become available as a result of the death or financial or marital difficulties of the owner. These factors cause the supply and demand for works of art to be unpredictable and may lead to significant variability in Sotheby's revenues from period to period.

Competition in the art market is intense. A fundamental challenge facing any auctioneer or art dealer is the sourcing of high quality and valuable property for sale either as agent or as principal. Sotheby's primary UK competitor is Christie's International, PLC, a privately owned, French-owned, auction house. To a lesser extent, Sotheby's also faces competition from smaller auction houses such as Bonhams and Phillips. In response to the competitive environment, Sotheby's may offer consignors a variety of financial inducements such as auction commission sharing arrangements and auction guarantees as a means to secure high-value consignments.

Although these inducements may lead to a higher level of auction consignments, they adversely impact auction commission margins, and auction guarantees introduce the possibility of incurring a loss on the transaction and reduced liquidity if the underlying property fails to sell at the minimum guaranteed price. To mitigate the risk of a decline in auction commission margins, from time-to-time, Sotheby's adjusts its commission rate structures. In addition, Sotheby's may reduce its financial exposure under auction guarantees through contractual risk and reward sharing arrangements such as irrevocable bids under which a counterparty commits to bid a predetermined price on the guaranteed property. However, Sotheby's could be exposed to losses in the event any of its counterparties do not perform according to the terms of these contractual arrangements.

Sotheby's is a service business in which the ability of its employees to source high value works of art and develop and maintain relationships with potential sellers and buyers of art is essential to its success. Sotheby's business is highly dependent upon attracting and retaining qualified personnel and employee compensation is its most substantial operating expense. Sotheby's also incurs significant costs to promote and conduct its auctions, as well as general and administrative expenses to support its operations. While a large portion of Sotheby's expenses are fixed, certain categories of expense are variable. For example, sale marketing costs are dependent upon the volume of auction activity and certain elements of employee compensation are a function of Sotheby's profitability.

The profit on ordinary activities after taxation was £34,480,000 (2020: £141,026,000). The comparative result for the year ended 31 December 2020 included a gain of £115,298,000 on the sale and leaseback of the London properties. A dividend of £1,697,000 was received during the year (2020: £Nil). Turnover increased by 13% in the year to £154,807,000 (2020: 16% decrease to £137,328,000). No dividend was paid during the year (2020: £99,500,000).

The results of the Company for the year and the state of affairs at the reporting date are as shown in the financial statements on pages 18 - 51.

SOTHEBY'S

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

COVID-19

On 11 March 2020, the World Health Organization announced COVID-19 as a global pandemic (the "COVID-19 pandemic") and recommended containment and mitigation measures, which resulted in governments worldwide mandating shelter-in-place orders and the temporary closure of non-essential businesses. As a result, management postponed certain live auctions in March 2020, which resulted in an associated temporary material decline in sales volume and corresponding operating cash flows during that period. Measures were put in place by the Company and its parent Group to mitigate the disruption to the business which included; (i) the postponement of the major spring sales to early summer and autumn; (ii) the conversion of a number of live auctions to online auction formats; (iii) a temporary reduction in employee salaries and staff furloughs; (iv) the deferral and cancellation of discretionary capital and operating expenditure, including employee incentive compensations and; (v) the application for certain tax and employee related wage deferrals under newly enacted COVID-19 relief legislation in the countries in which the Group operates.

Since spring 2020, more favourable market conditions have been emerging in the international art market and there have been favourable responses to the new and enhanced digital platforms. Following local government guidelines, offices around the world were able to re-open for periods of time during the second half of 2020, before temporary measures of the closure of non-essential businesses were reintroduced. From April 2021 these measures began to be lifted again. Closely monitored credit facilities at the Group level provide the business with flexibility to meet its liquidity needs to support the business and capital to pursue technology and other initiatives and growth opportunities.

Management believe that the measures that have been implemented to date in response to COVID-19, along with the results of our operations for the period, have and will continue to mitigate the risks associated with the pandemic.

Brexit

As of 31 December 2020, the United Kingdom's transition period with the European Union officially ended and as a result new rules and arrangements now apply due to the UK no longer being part of the EU Customs Union.

Sotheby's is a global company with appropriate systems and capabilities in place, including payments, shipping and client base, to operate worldwide and navigate the regulatory changes that have resulted from Brexit. Sotheby's is experienced in complying with multiple different regulatory requirements with countries around the world. As a result, it has been a smooth transition with no large-scale changes to business activities. London remains a key global hub for the non-EU and EU art market trade.

As of the date of this report, given the trade deal, the financial markets and exchange rates have remained largely stable post Brexit, with the risks associated now less of a concern. A more significant factor is consignor sentiment regarding where they choose to sell, considering the changes to VAT and customs schedules, which, in the short-term at least, are expected in some instances to increase the time and cost of shipping between the UK and the EU, although this is expected to normalise over time.

Sotheby's continues to assess the impact of Brexit on the Company and its subsidiaries.

Redundancy programme

In April 2020 the Company began a redundancy consultation process with its employees. The majority of the employees whose roles became redundant left the Company during 2020. All remaining employees left the Company in 2021.

SOTHEBY'S

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

UK Pension Plan

On 2 October 2020, the Trustees of the UK Pension Plan purchased an insurance policy with the Pension Insurance Corporation ("PIC") insuring the Plan's remaining liabilities. The UK Pension Plan will now go through the required processes in order to proceed to a full buy-out and ultimate wind-up and is expected to complete by the fourth quarter of 2022.

Financial key performance indicators

The Company monitors a number of key performance indicators on an ongoing basis. Key performance indicators that are used to monitor and manage the business are primarily, turnover from auction revenue and private sales:

	2021 £000	2020 £000
Turnover from auction revenue	135,662	115,248
Turnover from private sales	19,145	22,080
	<u>154,807</u>	<u>137,328</u>

The global art market is cyclical in nature, and there is consequently a degree of variation in turnover year on year. The increase in turnover from auction revenue is primarily attributable to the rebound from the impact of the COVID-19 pandemic and, in part, the easing of Brexit related uncertainties.

Principal risks and uncertainties

Operating results from the Company as well as the Company's liquidity are significantly influenced by a number of risk factors, many of which are not within the Company's control. These factors, which are not ranked in any particular order, include:

The overall strength of the international economy and financial markets

The art market in which the Company operates is influenced over time by the overall strength of the global economy and financial markets, although this correlation may not be immediately evident in the short term. The Company's business can be particularly influenced by the economies of the US, the UK and the major countries or territories of Continental Europe and Asia.

Government laws and regulations

Many of the Company's activities are subject to laws and regulations that can have an adverse impact on the Company's business. In particular, export and import laws and cultural patrimony laws could affect the availability of certain kinds of property for sale at the Company's principal auction locations or could increase the cost of moving property to such locations.

Competition

The Company competes with other auctioneers and art dealers to obtain valuable consignments to offer for sale either at auction or through private sale. The level of competition is intense and can adversely impact the Company's ability to obtain valuable consignments for sale, as well as the commission margins achieved on such consignments.

SOTHEBY'S

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Principal risks and uncertainties (continued)

The amount and quality of property being consigned to art auction houses

The amount and quality of property being consigned to art auction houses are influenced by a number of factors not within the Company's control. Many consignments, and specifically single-owned sales consignments, become available as a result of the death or financial or marital difficulties of the owner, all of which are unpredictable. This, plus the ability of the Company to sell such property, can cause auction and related revenue to be highly variable from year to year.

Demand for art

The demand for art is influenced not only by overall economic conditions, but also by changing trends in the art market as to which collecting categories and artists are most sought after and by the collecting preferences of individual collectors, all of which are difficult to predict and which may adversely impact the ability of Sotheby's to obtain and sell consigned property, potentially causing significant variability in Sotheby's financial results from year to year.

Qualified personnel

The Company's business is largely a service business in which the ability of its employees to develop and maintain relationships with potential sellers and buyers of works of art is essential to the Company's success. Moreover, the Company's business is both complicated and unique, making it important to retain its key specialists and members of management. Accordingly, the Company's business is highly dependent upon its success in attracting and retaining qualified personnel.

Value of artworks

The art market is not a highly liquid trading market, as a result of which the valuation of artworks is inherently subjective and the realisable value of artworks often varies over time. Accordingly, the Company is at risk to the value of inventory held.

Key clients

The Company relies on a small number of clients who make a significant contribution to its revenues, profitability and operating cash flows. Accordingly, Sotheby's revenues, profitability and operating cash flows are highly dependent upon its ability to develop and maintain relationships with this small group of clients, as well as the financial strength of these clients.

UK pension plan

On 2 October 2020, the Trustees of the UK Pension Plan (the "Plan") purchased an insurance policy with the PIC insuring the Plan's remaining liabilities, which will remove some of the Companies risks associated with the plan. The UK Pension Plan will now go through the required processes in order to proceed to a full buy-out and ultimate wind-up and is expected to complete by the fourth quarter of 2022.

The directors seek to mitigate the principal risk factors, where possible, by employing qualified personnel and assessing the marketplace.

SOTHEBY'S

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company's business and the assets and liabilities contained within the Company's Balance sheet, the principal financial risks the directors consider relevant to this Company are credit risk, liquidity risk and cash flow risk. Credit and liquidity risks are mitigated by the nature of the debtor balances owed, with these due from other group companies who are able to repay if required and from purchasers of auction items who will not receive their acquired items until the hammer price and premiums have been received. Cash flow risk is mitigated by the ability of other group companies who are able to loan the Company funds if required. The directors have considered the position of the other group companies and have reasonable expectation that the other group companies have the financial resources to fulfil that commitment. As a consequence, the directors believe that the Company is well placed to manage its financial risk successfully. Currency risk is not considered a principal risk because the majority of transactions take place in Pounds Sterling, the Company's functional currency. This is the currency of all auction contracts held by the Company. Where a transaction is committed to in another currency, the Company aims to fix the rate in advance with a buy forward.

Future developments

The directors were satisfied with Sotheby's result in 2021 and are cautiously optimistic for 2022 despite the challenges associated with the impact of COVID-19 which can be found on page 2. The directors remain confident of Sotheby's long-term success and continue to selectively invest in growth initiatives.

Statement by the directors in accordance with s172(1) Companies Act 2006

The directors act in a way that they considered to be most likely to promote the success of the Company or the benefit of its member as a whole, and in doing so have regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Company's key stakeholders include its employees, clients, suppliers, and the environment.

How does the Board engage with stakeholders?

The directors will sometimes engage directly with stakeholders on certain issues, but stakeholder engagement often takes place at an operational level within the business. In addition, given the international nature of many of Sotheby's clients, certain stakeholder engagement is led at the Sotheby's Group level, in particular where matters are of group-wide significance, for example the declaration of dividends, or have the potential to impact the reputation of the Sotheby's Group.

SOTHEYB'S

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Statement by the directors in accordance with s172(1) Companies Act 2006 (continued)

Engagement with employees

As part of the Sotheby's colleague engagement and communication process, the company holds regular global and regional townhall meetings where colleagues are kept informed and up to date on key changes to the company and associated colleague implications e.g. changes as a result of COVID-19. These townhalls are followed by all-colleague emails summarizing the session. In 2021, Sotheby's launched a new intranet and internal communications platform. The new intranet is a central hub for building community, communicating as a Company, and acting as a repository for all internal documents and HR policies. Sotheby's also runs an annual global colleague survey where colleague feedback on Reward, Culture and Development are collated, reviewed and used to drive colleague engagement/development initiatives, such as the establishment of employer recognized groups (ERG's) to improve diversity and integration. Key changes and additions to personal benefits, for example changes to the Group Income Protection Insurance provider, are also communicated to employees through email and direct mail.

Engagement with clients

On the broadest level, Sotheby's engages with its clients through its website and related digital and social media, which provides information about its auctions, buy now inventory and services. When clients visit Sotheby's salerooms or offices, they meet Sotheby's colleagues, view exhibitions, attend events and enjoy its restaurants. The Company relies on a select group of clients who make a significant contribution to its revenues, profitability and operating cash flows. Accordingly, Sotheby's revenues, profitability and operating cash flows are highly dependent upon its ability to develop and maintain relationships with this group of clients, as well as the financial strength of these clients.

Engagement with suppliers

Sotheby's aims to maintain close relationships with key suppliers to ensure efficient and high-quality delivery of service. Communication with its suppliers is managed through internal relationship holders who are close to the relevant function. These relationship holders convey updates regarding Company policy to suppliers as relevant and relay their insight and feedback to senior management.

Environmental considerations

In running the operations of the Company, the Directors are mindful of the environmental impact of the business and have supported the operational teams in continuing to review their practices. During 2021 the Company continued to upgrade the lighting in the London galleries to LED lamps, and gradually terminated the remaining lease agreements on petrol vehicles. In addition, in October 2021 the Company moved to a renewable electricity supply contract covering all our London site. The Company hope to make approximately 15% per annum of savings in gas and electricity usage for these sites by the end of 2024.

SOTHEBY'S

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Employees

Details of the Company's approach to engagement with employees can be found in the Section 172(1) statement on page 6.

Applications for employment by disabled persons are always fully considered in the light of the respective skills and abilities of those concerned. Training and career development for such a person would, wherever possible, be similar to that of a person fortunate enough not to suffer from a disability. Equivalent opportunities for training and continued employment would be available for employees who have become disabled persons during the period when they are employed by the Company. Furthermore, there is a permanent health insurance policy and employee assistance programmes which cover the majority of UK staff whereby, if they suffer an illness or injury which renders them unable to continue employment, they continue to receive a substantial proportion of their remuneration.

This report was approved by the board and signed on its behalf by:



Sebastian Fahey
Director

Date: 29 September 2022

SOTHEYBY'S

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

As permitted under section 414C (11) of the Companies Act 2006, the directors have included information in the Strategic report that otherwise would be required under section 416(4) to be disclosed in the Directors' report, including future developments, the use of financial instruments, disabled employees and employee consultation. This information is shown by way of cross-reference in the Directors' report.

Results and dividends

The profit for the year, after taxation, amounted to £34,480,000 (2020: £141,026,000).

The Company received £1,697,000 of dividends during the year (2020: £Nil). A dividend of £Nil was paid during the year (2020: £99,500,000). As of the date of this report, no dividends have been received or paid in 2022.

Directors

The directors who served during the year, and up to the signing of this report were:

Sebastian Fahey
Jayne Louise Franks
Jean-Luc Berrebi (resigned 14 July 2021)

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has adapted to the COVID-19 pandemic and has put measures in place to allow them to continue in operation during these uncertain times. Further details can be found in the Strategic report on page 2 by cross-reference. There has been a smooth transition since Brexit with no large-scale changes required to business activities. Further details can be found in the Strategic report on page 2 and form part of this report by cross-reference.

The parent company, Sotheby's (Delaware), has issued a letter of support to the Company. The directors have made enquiries of the parent, Sotheby's (Delaware), and concluded that it will provide sufficient support to enable the Company to meet its liabilities as they fall due for at least the next 12 months from the date of signing this report. For further disclosures refer to the accounting policies in note 2.

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Future developments

Details of future developments can be found in the Strategic report on page 5 and form part of this report by cross-reference.

SOTHEY'S

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

The use of financial instruments

Details of the use of financial instruments can be found in the notes to the financial statements on page 51.

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Disabled employees

Details of policies in place in regard to disabled employees can be found in the Strategic report on page 7 and form part of this report by cross-reference.

Engagement with suppliers, customers and others

Details of the Company's engagements with suppliers, customers and others can be found in the statement by the directors in accordance with s172(1) Companies Act 2006 in the Strategic report on page 6 and form part of this report by cross-reference.

Carbon reporting

The Company has reported on all sources of GHG emissions and energy usage as required under *The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* as amended.

Energy and carbon consumption

The total energy consumed reported refers to the total annual quantity of energy consumed from activities for which the Company is responsible, including the combustion of fossil fuels and energy consumed from the purchase of electricity.

For the Streamlined Energy and Carbon Reporting purposes, Sotheby's measures its GHG emissions in line with the latest GHG Protocol. Scope 1: Gas, Stationary fuel and Fleet; Scope 2 (Location-based): Electricity; Scope 3: only includes emissions associated to employee owned vehicles where the company is responsible for purchasing the fuel.

The table below provides a high-level breakdown of the Company's annual energy consumption and GHG emissions:

	2021	2020*
Scope 1 Emissions (Mt CO ₂ e)	254.83	280.12
Scope 2 Emissions - Location based (Mt CO ₂ e)	733.11	1,466.56
Total Scope 1 & Scope 2 Emissions (Mt CO ₂ e)	987.9	1,746.7
Emissions Intensity (Mt CO ₂ e / lot offered)	0.046	0.086
Scope 3 Emissions (Mt CO ₂ e)	1.18	1.42
Total Energy Consumed (KWh)	4,845,640	5,083,888

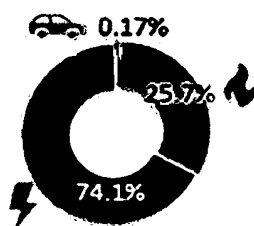
*The 2020 calculated emissions were restated due to the transport emissions improved calculations.

SOTHEBY'S

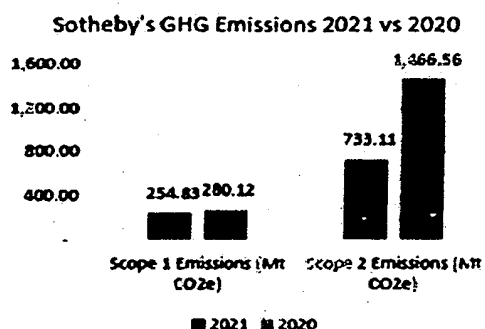
DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Energy and carbon consumption (continued)

The primary GHG emitters are gas and electricity consumption needed for operational buildings.



The graphic below does a comparative analysis of the Company's Scope 1 and Scope 2 emissions for 2021 vs 2020. The Scope 1 emissions were reduced by 9% in 2021 and the Scope 2 emissions were reduced by 50%.



To the achieved energy and GHG emissions reduction contributed the energy efficiency measures that started being implemented in 2020 and continued through 2021, as detailed in the "Sotheby's Energy Reduction Initiative section".

Intensity metric

Sotheby's converted absolute emissions to an emission's intensity ratio based on the number of lots offered over the year. This is measured annually and compared against previous years to show our progress in reducing our carbon intensity. In 2021 our emissions per lot were reduced by over 46.5% compared to 2020, from 0.086 Mt CO2e to 0.046 Mt CO2e in 2021.

SOTHEBY'S

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Sotheby's initiatives

This section highlights projects undertaken in 2021 aiming to improve the business energy efficiency and thus, contributing to reduce associated GHG emission.

1. There had planned to be a site wide replacement of aged plant, which would involve extensive upgrades across all London sites, such as upgrading the HVAC system and fully upgrade the building's management system to make these better fit for purpose and more energy efficient. Whilst there has a delay to the project commencement for the upgrades across our London sites, this is due to the business looking at wider options for upgrades to the buildings as a whole which will in turn lead to them becoming better fit for purpose and certainly more energy efficient in future. Any future project will incorporate all previously planned works including HVAC and BMS system upgrades and we would anticipate a commencement of works during 2023 with a duration of 3-5 years.
2. During 2021, the Company continued to upgrade the lighting in all its London galleries to LED lamps to ensure all buildings' lighting becomes energy efficient. Further, any back of house lighting that needed replacing during this period was upgraded to LED lighting since halogen lamps have now been phased out. In 2022 and beyond, we are looking at pricing / options for a wider-scale project for London and Greenford to upgrade all back of house areas to LEDs.
3. In October 2021, the Company moved to a renewable electricity supply contract covering all our sites.
4. In 2021, the business gradually terminated the remaining lease agreements for Company petrol vehicles which contributed to the reduction of our Scope 1 emissions.

Subsequent event

In February 2022, the Company acquired an additional 50% ownership interest in RM Classic. As a result, we have significant governance participation as well as controlling financial interest in RM Classic. The Company is in the process of finalizing the acquisition.

The Company does not believe the ongoing conflict in Ukraine will have a material impact on the operations of the business. Clients living in Russia represented less than 2% of the Company's total bidders between 2018 and 2020. We have a small administrative office in Moscow, which has been closed following the outbreak of war, and we are carefully monitoring all sanctions and legal actions that have been imposed as a result of the situation and are diligently ensuring our full compliance with those requirements.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of an relevant audit information and to establish that the Company's auditor is aware of that information.

The directors' confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

The auditors, Constantin, have been appointed during the year and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

SOTHEBY'S

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

This report was approved by the board and signed on its behalf by:


Sebastian Fahey
Director

Date: 29 September 2022

SOTHEYBYS

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SOTHEYBY'S

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOTHEYBY'S

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Sotheby's (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its result for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

SOTHEBY'S

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOTHEBY'S (CONTINUED)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

SOTHEBY'S

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOTHEBY'S (CONTINUED)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business. }

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

SOTHEBY'S

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOTHEBY'S (CONTINUED)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

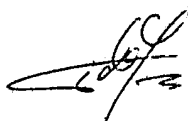
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Thierry de Gennes ACA, (Senior Statutory Auditor)
for and on behalf of Constantin
Statutory Auditor
25 Hosier Lane
London
EC1A 9LQ



Date: 29 September 2022

SOTHEBY'S

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Auction sales	5	135,662	115,248
Private sales	5	19,145	22,080
Turnover		154,807	137,328
Cost of sales		(16,372)	(18,890)
Gross profit		138,435	118,438
Administrative expenses		(104,172)	(90,847)
Profit on sale of fixed assets		-	115,298
Other operating income	6	3,148	2,422
Operating profit	7	37,411	145,311
Interest receivable and similar income	11	4,024	1,140
Interest payable and similar expenses	12	(1,634)	(1,770)
Profit before tax		39,801	144,681
Tax on profit	13	(5,321)	(3,655)
Profit for the financial year		34,480	141,026

All results are derived from continuing activities.

The notes on pages 24 to 51 form part of these financial statements.

SOTHEBY'S

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £000	2020 £000
Profit for the financial year		34,480	141,026
Other comprehensive income			
Actuarial losses on the defined benefit scheme	23	(594)	(70,892)
Unrealised (loss)/gain on sale of property in exchange for investment		(150)	56,218
Tax relating to components of other comprehensive income		113	12,285
Total comprehensive income for the year		33,849	138,637

The notes on pages 24 to 51 form part of these financial statements.

SOTHEYBY'S
REGISTERED NUMBER: 00874867

BALANCE SHEET
AS AT 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Fixed assets			
Tangible assets	14	8,185	9,557
Investments	15	95,304	95,314
		<u>103,489</u>	<u>104,871</u>
Current assets			
Stocks: works of art		3,472	3,417
Stocks: other stocks		55	95
Debtors: amounts falling due within one year	16	328,659	259,424
Debtors: amounts falling due after more than one year	16	976	1,437
Cash at bank and in hand		29,441	15,828
		<u>362,603</u>	<u>280,201</u>
Creditors: amounts falling due within one year	18	(244,570)	(197,339)
Net current assets		<u>118,033</u>	<u>82,862</u>
Total assets less current liabilities		<u>221,522</u>	<u>187,733</u>
Creditors: amounts falling due after more than one year	19	(26,082)	(27,544)
Provisions for liabilities			
Provisions	20	(1,305)	(2,448)
		<u>(1,305)</u>	<u>(2,448)</u>
Pension asset	23	950	3,505
Net assets		<u><u>195,085</u></u>	<u><u>161,246</u></u>

SOTHEBY'S
REGISTERED NUMBER: 00874867

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Capital and reserves			
Called up share capital	20, 21	19,000	19,000
Capital redemption reserve		110	110
Unrealised gain reserve		56,068	56,218
Profit and loss account		119,907	85,918
Shareholder's funds		<u>195,085</u>	<u>161,246</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:


Sebastian Fahey
Director

Date: 29 September 2022

The notes on pages 24 to 51 form part of these financial statements.

SOTHEBY'S

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital	Capital redemption reserve	Unrealised gain reserve	Profit and loss account	Shareholder's funds
	£000	£000	£000	£000	£000
At 1 January 2021	19,000	110	56,218	85,918	161,246
Comprehensive income for the year					
Profit for the financial year	-	-	-	34,480	34,480
Actuarial losses on pension scheme (note 22)	-	-	-	(481)	(481)
Unrealised gains on sale of property (note 14)	-	-	(150)	-	(150)
Total comprehensive income for the year	-	-	(150)	33,999	33,849
Closure of investment entities	-	-	-	(10)	(10)
At 31 December 2021	19,000	110	56,068	119,907	195,085

The notes on pages 24 to 51 form part of these financial statements.

SOTHEBY'S

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital	Capital redemption reserve	Revaluation reserve	Unrealised gain reserve	Profit and loss account	Shareholder's funds
	£000	£000	£000	£000	£000	£000
At 1 January 2020	19,110	-	2,435	-	101,064	122,609
Comprehensive income for the year						
Profit for the financial year	-	-	-	-	141,026	141,026
Actuarial losses on pension scheme (note 22)	-	-	-	-	(70,892)	(70,892)
Deferred tax on actuarial loss	-	-	-	-	12,285	12,285
Transfer between reserves (note 3)	-	-	(2,435)	-	-	(2,435)
Transfer between reserves (note 3)	-	-	-	-	2,435	2,435
Unrealised gains on sale of property (note 14)	-	-	-	56,218	-	56,218
Total comprehensive income for the year	-	-	(2,435)	56,218	84,854	138,637
Dividends paid (note 25)	-	-	-	-	(99,500)	(99,500)
Redeemed share capital	-	110	-	-	(500)	(390)
Redeemed share capital	(110)	-	-	-	-	(110)
Total transactions with owners	(110)	110	-	-	(100,000)	(100,000)
At 31 December 2020	19,000	110	-	56,218	85,918	161,246

The notes on pages 24 to 51 form part of these financial statements.

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. General information

Sotheby's (the "Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales, with its offices at 34-35 New Bond Street, London, W1A 2AA, United Kingdom. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 1 to 7. For avoidance of doubt and for clarity, all references to the parent company, Sotheby's Delaware in the USA, will be referred to as "Sotheby's (Delaware)", registered at 1334 York Avenue, New York, NY 10021.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2.19).

The functional currency of the Company is considered to be the pound sterling because that is the currency of the primary economic environment in which the Company operates. The presentation currency is also the pound sterling and amounts contained within these financial statements are rounded to the nearest thousand pound.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Sotheby's (Delaware) as at 31 December 2021 and these financial statements may be obtained from sothebys.com.

2.3 Group accounts

The Company is exempt from preparing and delivering consolidated financial statements under s400 of the Companies Act 2006 as it is part of a larger group headed by Sotheby's (Delaware) who prepares consolidated financial statements in the United States of America.

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.4 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the review of the business which forms part of the strategic report. The strategic report also describes the financial position of the entity, its liquidity position, objectives and policies and procedures for managing its capital; and its exposure to interest rate risk, currency risk, cash flow risk, price risk, credit risk and liquidity risk.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, with the Group preparing cash flow forecasts to support this view. The Company has adapted to the COVID-19 pandemic and has put measures in place to allow them to continue in operation during these uncertain times. Further details can be found in the Strategic report on page 2 by cross-reference. There has been a smooth transition after Brexit with no large-scale changes to business activities. Further details can be found in the Strategic report on page 2 and form part of this report by cross-reference.

The parent company, Sotheby's (Delaware), has issued a letter of support to the Company. The directors have made enquiries of the parent, Sotheby's (Delaware), and concluded that it will provide sufficient support to enable the Company to meet its liabilities as they fall due for at least the next 12 months.

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

2.5 Revenue recognition

Sotheby's functions principally as an agent by offering works of art for sale at an auction and by brokering private art sales. Sotheby's principal role as an agent is to stimulate buyer interest through professional marketing techniques and to match sellers and buyers through the auction or private sale process. Commissions, premiums and related charges are normally treated as turnover in the accounts at the date of the relevant sale. Turnover is stated net of value added tax.

Where guarantees or non-refundable advances have been given in respect of sale proceeds, revenue is not recognised until the aggregate sales of the relevant items exceed the amount of the guarantees or advances.

Sales of items held in inventory may be consummated through either a private sale transaction or through an auction sale. Regardless of the method of sale, title and control of the artwork are transferred to the buyer only upon payment of the full purchase price. Accordingly, sales of inventory are recognized at a point in time in the period when title and control of the artwork is transferred to the buyer; any related costs or write downs are reported as part of cost of sales.

2.6 Dividend income

Dividends received from investments are recognised at the date in which they are declared by the board of directors.

2.7 Operating leases

Rental costs under operating leases are charged to profit or loss in equal annual amounts over the period of the lease. Rental income under operating leases is credited to profit or loss in equal amounts over the period of the lease.

SOTHEYBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.8 Government grants (furlough scheme)

Government grants are recognised based on the accruals model and are measured at the fair value of the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue, such as the furlough scheme, are recognised in income over the period in which the related costs are recognised. A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in income in the period in which it becomes receivable.

2.9 Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at rates of exchange prevailing at the reporting date. All exchange gains or losses are reported as part of the profit or loss for the year.

2.10 Interest income

Interest on overdue receivables is recognised in the period it is charged.

2.11 Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land and some buildings in conservation areas but including improvements to freehold buildings, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold land and buildings	- Over the shorter of the estimated useful life (usually 20 years), and the unexpired portion of the lease
Fixtures and fittings	- 25% - 33% per annum
Assets in the course of construction	- No depreciation is provided unless the directors consider it prudent

Fixtures, fittings and equipment include computer hardware and software, fixtures and fittings and motor vehicles.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

In 2020 the freehold and virtual freehold property owned by the Company was sold to a subsidiary with the surplus on book value being split between realised profit recognised in the profit and loss account and unrealised profit recognised as other comprehensive income.

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.12 Works of art and other stocks

Works of art are stated at the lower of cost or management's estimate of net realisable value on a specific identification basis. Valuation reserves are to be recorded, if necessary, to adjust the carrying value of the inventory to its estimated net realisable value. The valuation of inventory occurs on a quarterly basis. The cost is the hammer price where the item had previously been sold by Sotheby's, or the amount an investment item was purchased for.

2.13 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), subsequently recognised at amortised cost, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

In the Company's Balance sheet, investments in subsidiaries are held at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

An impairment review is undertaken by assessing the net assets of the investment and comparing to the value held on the Balance sheet.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

SOTHEYBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.13 Financial instruments (continued)

(iv) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date, with the resulting gain or loss recognised in the profit or loss account.

(v) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique.

2.14 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.15 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Company is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

The tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.16 Retirement benefits

Defined benefit scheme

Sotheby's is part of the UK group's pension scheme which provides benefits based on final pensionable pay for employees. Company contributions are based on periodic actuarial calculations by a qualified actuary. The scheme is funded by payments to trustee-administered funds independent of the group's finances.

The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs.

Past service costs are recognised immediately in the profit and loss account if the benefits have vested. The net interest cost on the net defined benefit liability is shown within finance costs. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each reporting date.

The scheme was closed to further accrual on 30 April 2016 and so no contributions were paid since that date.

On 2 October 2020, the Trustees of the UK Pension Plan purchased an insurance policy with the Pension Insurance Corporation ("PIC") insuring the Plan's remaining liabilities. The UK Pension Plan will now go through the required processes in order to proceed to a full buy-out and ultimate wind-up and is expected to complete by the fourth quarter of 2022.

Defined contribution scheme

On 1 April 2004 the Company introduced a defined contribution pension scheme. The amounts charged to the Profit and loss account in respect of pension costs and other post-retirement benefits are the contributions actually payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

2.17 Debtors and creditors

Amounts receivable from purchasers and payable to consignors as a result of sales by auction are dealt with as debtors and creditors respectively although the Company has no legal obligation under its normal conditions of sale to pay the proceeds of sale to a consignor until it has received payment from the purchaser.

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.18 Share based payments

In periods prior to the parent being taken private in 2019, the Group issued equity-settled and cash-settled share-based payments to certain employees. At the Effective Time of the Merger, these were cancelled and converted into the right to receive an amount in cash based on the number of shares and the Merger Consideration (\$57 per share).

Beginning in June 2020, certain executive management employees of Sotheby's received awards in a carry unit plan which is indirectly owned by entities outside the Sotheby's consolidated group. Awards issued to Sotheby's employees under the carry unit plan are considered compensation for services provided to Sotheby's.

2.19 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

As part of the London Properties transfer, the Company deemed this transaction a sale and leaseback arrangement, and the subsequent leases entered into, operating leases and have accounted for these as such.

Critical judgements in applying the Company's accounting policies

There are no critical judgements in applying the Company's accounting policies.

Key source of estimation uncertainty – valuation of works of art

Works of art and other stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. The art market is not a highly liquid trading market, as a result of which valuation of works of art is inherently subjective and the realisable value of works of art often varies over time. Other stocks include paper and photography stocks.

3. Prior year adjustment

In the prior year financial statements, there was an amount of £2,435,000 incorrectly presented within the revaluation reserve which has been transferred to profit and loss. The amount represents the cumulative effect of revaluations that arose from freehold and leasehold properties. The properties were sold in the prior year therefore the gain was realised and transferred to profit and loss.

There was no impact on profits for the year ended 31 December 2020 or net assets at that date.

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. Auction and private sales

Sotheby's two main sources of income are from the commission earned from the auction and private sale processes. Auction sales are the sale of works of art at a public auction. Private sales are the contracted sale of works of art in a discrete transaction.

Auction and private sales comprise the total value of lots sold plus premiums payable by purchasers. Sotheby's functions principally as an agent by offering works of art for sale at an auction and by brokering private art sales.

Therefore premiums payable by purchasers, and commissions deducted from the proceeds paid to vendors, not the total value of lots sold, are included in turnover.

5. Turnover

Turnover consists of commissions and fees arising from auctioneering and related activities and is considered to be the only class of business.

	2021 £000	2020 £000
Auction turnover	135,662	115,248
Private sales turnover	19,145	22,080
Total turnover	154,807	137,328

All auction turnover derived from auctions held in the UK. The geographical summary by origination of private sales turnover is as follows:

	2021 £000	2020 £000
United Kingdom	12,248	16,380
Europe	1,312	649
USA	5,302	3,679
Asia	283	1,372
Total private sales turnover	19,145	22,080

SOTHEBY'S

**NOTES TO THE FINANCIAL STATEMENTS
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6. Other operating income

	2021	2020
	£000	£000
Rent receivable	1,430	1,393
Government grants	21	1,029
Dividends received	1,697	-
	<u>3,148</u>	<u>2,422</u>

During the year, government grants of £21,000 (2020: £1,029,000) were received in relation to the furlough scheme as part of a Government initiative to provide immediate financial support as a result of the COVID-19 pandemic. There are no future related costs in respect of these grants which were received solely as compensation for costs incurred in the year.

7. Operating profit

	2021	2020
	£000	£000
The profit before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	2,214	5,926
Gains on disposal of fixed assets	-	(115,298)
Inventory write-downs	755	647
Rentals under operating leases: hire of plant and machinery	174	258
Rentals under operating leases: other operating leases	11,094	4,884
Foreign exchange gains	(314)	(776)
Defined contribution pension costs	<u>1,808</u>	<u>2,005</u>

SOTHEYBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

7. Operating profit (continued)

The analysis of auditor's remuneration is as follows:

	2021 £000	2020 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	175	242
Fees payable to the Company's auditor for audit of the Company's parent and subsidiaries pursuant to legislation and borne by the Company	97	67
Total audit fees	272	309
Non-audit fees: Taxation compliance services	-	3

The profit on ordinary activities before taxation includes payments and receipts with Sotheby's Group companies. The Company has entered into agreements with Sotheby's Group companies, under those agreements the Company has agreed to pay or receive the following amounts which are reported net within administrative expenses:

Pay a fee for the right to sell at auction property that has been consigned for sale as a result of services provided by another Sotheby's Auction entity that is party to similar agreements. These fees have been agreed at 10% or 20% of auction revenue, dependent upon the type of services provided. In 2021, such fees totalled £18.8m (2020: £18.0m).

Receive a fee in relation to consignments of property for sale at auction that result from services provided by the Company, but that are sold by another Sotheby's company that is party to similar agreements. These fees have been agreed at 10% or 20% of auction revenue, dependent upon the type of services provided. In the year 2021, such fees totalled £7.6m (2020: £8.9m).

Pay a fee to other Sotheby's companies which have entered into private sale contracts which have resulted in revenue being recognised by the Company. These fees have been agreed at 10% of the net revenue received by the Company. In 2021, such fees totalled £0.7m (2020: £Nil).

Receive a fee from other Sotheby's companies when the Company has entered into private sale contracts which have resulted in revenue being recognised by other Sotheby's companies. These fees have been agreed at 10% of the net revenue received by the other Sotheby's companies. In 2021, such fees totalled £0.3m (2020: £Nil).

Pay a Trademark Royalty fee to Sotheby's USA and receive a fee from other Sotheby's companies for the use of the Sotheby's trademarks and brand. This fee has been agreed at 7.6% of auction revenue. In the year 2021, the Company paid £5.0m (2020: £4.5m) and received £14.3m (2020: £13.5m).

Pay to Sotheby's Global Trading Company GmbH ("GTC") a fee for treasury services related to the management of inter-company settlements in local and foreign currencies and third-party settlements in foreign currencies. This fee has been agreed at cost plus 10% of a share of GTC's annual costs, that share being determined by the Company's proportionate share of Sotheby's worldwide auction revenues over a three-year average period. In the year 2021, such fees totalled £0.2m (2020: £0.2m) and are recorded as administrative expenses.

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

7. Operating profit (continued)

Pay and receive interest on treasury advances from/to GTC. Interest on such advances is charged/credited at rates similar to those offered by third party financial institutions. In the year 2021, net interest received totalled £4,000 (2020: £Nil), and is included with interest receivable and similar income.

8. Employees

	2021 £000	2020 £000
Staff costs, including directors, comprised:		
Wages and salaries	46,101	40,744
Social security costs	6,814	6,486
Other pension costs	4,727	2,131
	<u>57,642</u>	<u>49,361</u>

Average number of employees in the year, including directors:

	2021 No.	2020 No.
Expert departments	165	191
Other departments	287	294
	<u>452</u>	<u>485</u>

These figures are the monthly average number of employees in line with the Companies Act 2006 requirements.

Details of the Company's engagement with employees can be found in the Strategic report on pages 6 and 7 by cross-reference.

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Directors' remuneration

The directors, who are also directors of the parent company, Oatshare Limited, received total emoluments of £936,408 (2020: £718,974) from the Company, excluding costs related to directors whose remuneration is borne by another group company. It is not practicable to allocate this between their services as directors of Sotheby's and Oatshare Limited.

The emoluments of the directors paid by the Company are included below:

	2021 £000	2020 £000
Directors' emoluments		
Remuneration	933	714
Pension contributions	4	5
	<u>937</u>	<u>719</u>
Emoluments of highest paid director		
Remuneration	588	480
Pension contributions	4	5
	<u>592</u>	<u>485</u>

Directors' remuneration excludes directors who discharge their duties wholly or mainly outside the United Kingdom. At the reporting date no (2020: Nil) directors were members of the Sotheby's defined benefit pension scheme. During the year no directors (2020: Nil) exercised share options and two (2020: two) were granted restricted stock under the Company's long-term incentive scheme and received rewards in a carry unit plan, including the highest paid director (refer to note 10).

10. Share-based payments and restricted stock

In October 2019 Sotheby's (Delaware)'s shares were all acquired by companies controlled by Patrick Drahi. Prior to this, restricted stock awards to employees were accounted for as equity settled and the fair value of awards was calculated based upon the closing stock price on the business day before the grant date. Since the acquisition these restricted share awards will be payable to the employees in cash once the original vest date is met, provided the employee is still employed by Sotheby's. These will be paid at the acquisition share price of the merger. The Company recognised total expenses relating to restricted stock in the value of £1,002,194 (2020: £2,446,997) during the year.

Beginning in June 2020, certain executive management employees of Sotheby's received awards in a carry unit plan which is indirectly owned by entities outside the Sotheby's consolidated group. Awards issued to Sotheby's employees under the carry unit plan are considered compensation for services provided to Sotheby's. At the time of issuance, the carry unit plan awards were deemed taxable as compensation to the Sotheby's employee and resulted in an initial tax liability. As a result, Sotheby's provided an advance to each employee in satisfaction of the individual tax liability. As at the reporting date, advances made in connection with the carry unit tax liability totalled £506,000 (2020: £506,000). The advances are expected to be recovered on disposal of the units, or from any proceeds generated from them starting in 2024.

SOTHEY'S

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

11. Interest receivable and similar income

	2021 £000	2020 £000
Interest receivable from short term deposits	-	24
Intercompany interest receivable	2,579	263
Other interest receivable and similar income	1,445	853
	4,024	1,140

12. Interest payable and similar expenses

	2021 £000	2020 £000
Intercompany interest payable	229	949
Other interest payable	1,405	821
	1,634	1,770

SOTHEY'S

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

13. Tax on profit

	2021	2020
	£000	£000
Corporation tax		
Current tax on profits for the year	4,347	2,822
Double tax relief	(199)	(204)
Adjustments in respect of previous periods	641	451
	<u>4,789</u>	<u>3,069</u>
Foreign tax	199	204
Effect of change of tax rate	-	(1,184)
Total current tax	<u>4,988</u>	<u>2,089</u>
Deferred tax		
Origination and reversal of timing differences	435	1,439
Adjustments in respect of prior periods	4	9
Effect of change of tax rate	(106)	118
Total deferred tax	<u>333</u>	<u>1,566</u>
Tax charged to profit or loss	<u><u>5,321</u></u>	<u><u>3,655</u></u>
 Deferred tax on actuarial gains and losses	 -	 24,570
Tax included in other comprehensive income		
Deferred tax on actuarial gains and losses	(113)	(13,469)
Effect of change of tax rate	-	1,184
Total tax income included in other comprehensive income	<u><u>(113)</u></u>	<u><u>(12,285)</u></u>

SOTHEBY'S

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

13. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020: *higher than*) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021	2020
	£000	£000
Profit on ordinary activities before tax	39,801	144,681
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(7,562)	(27,489)
Effects of:		
Income not deductible for tax purposes	623	21,734
Non-taxable dividend income	322	-
Other taxes	113	-
Impact of rate change	(89)	941
Adjustments in respect of prior periods	(755)	(460)
Non-trade loan relationship	2	-
Group relief	2,025	1,619
Total tax charge for the year	(5,321)	(3,655)

Factors that may affect future tax charges

The UK Budget 2021 announcements on 3 March 2021, substantively enacted on 24 May 2021, included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023.

There were no other factors that may affect future tax charges.

SOTHEYB'S

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

14. Tangible fixed assets

	Short-term leasehold property £000	Fixtures, fittings and equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2021	12,193	24,071	106	36,370
Additions	81	987	23	1,091
Disposals	(150)	(19)	-	(169)
Reclassification	-	71	(71)	-
At 31 December 2021	12,124	25,110	58	37,292
Depreciation				
At 1 January 2021	7,875	18,843	96	26,814
Charge for the year	399	1,899	-	2,298
Disposals	-	(5)	-	(5)
Reclassification	-	96	(96)	-
At 31 December 2021	8,274	20,833	-	29,107
Net book value				
At 31 December 2021	3,850	4,277	58	8,185
At 31 December 2020	4,319	5,228	10	9,557

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

14. Tangible fixed assets (continued)

On 30 November 2020 the Company transferred the ownership of its freehold and virtual freehold properties to a new subsidiary, 34-35 New Bond Street Limited, and entered into operating leases to continue using the properties (see note 23). The total consideration for this transfer was £229,310,000 in the form of an investment in 34-35 New Bond Street Limited valued at £84,601,401 and a loan note valued at £144,708,599, which was subsequently settled in cash on 2 December 2020. The net book value of assets transferred as of that date was £28,683,177.

A professional valuation of the properties was undertaken by CBRE in accordance with the 'RICS Valuation - Global Standards 2017 (Incorporating the IVSC International Valuation Standards)' prepared by the Royal Institution of Chartered Surveyors (the "Red Book"). The valuation on a vacant possession basis was £200,195,000 and the market value based on the sale and leaseback arrangement was £229,310,000.

The amount received in cash of £115,294,000 was treated as a realised profit recognised in the *profit and loss account*. As the total consideration exceeded the fair value of the properties on a vacant possession basis, the excess of £29,115,000 was deferred and will be amortised over the period of the lease. The residual unrealised profit on the issue of the shares of £56,217,716 was recognised in *other comprehensive income*.

The gross amount and related accumulated depreciation charges of assets held for use in operating leases at the reporting date were £214,277 (2020: £214,277), and £nil (2020: £nil), respectively.

15. Fixed asset investments

	Investments in subsidiary companies £000	Investments in associates £000	Total £000
Cost			
At 1 January 2021	85,001	10,313	95,314
Disposals	(10)	-	(10)
At 31 December 2021	<u>84,991</u>	<u>10,313</u>	<u>95,304</u>
Net book value			
At 31 December 2021	<u>84,991</u>	<u>10,313</u>	<u>95,304</u>
At 31 December 2020	<u>85,001</u>	<u>10,313</u>	<u>95,314</u>

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

15. Fixed asset investments (continued)

Sotheby's holds 100% of the issued ordinary share capital in the following subsidiaries at the reporting date:

	Nature of business	Country of registration	Registered office address
Sotheby's Financial Services Limited	Loans and advances	England and Wales	34-35 New Bond Street, London, W1A 2AA
Sotheby's Properties Limited	Intermediary for Sotheby's CIS	England and Wales	34-35 New Bond Street, London, W1A 2AA
Bidfair UK Property Holdings Limited	Holding company	England and Wales	34-35 New Bond Street, London, W1A 2AA
Sotheby's Art Services Limited	Auction company	United Arab Emirates	Unit 01 Level B2, Gate Village Building 3, Dubai International Financial Centre, PO Box 507092, Dubai

At the reporting date the Company owned 99% (2020: 99%) of the ordinary share capital of Sotheby's Belgium Limited (Rue Jacques Jordaens, 32, Brussels 1000, Belgium), a fine art auction company registered in Belgium. Sotheby's also owns 95% of the ordinary share capital of Sotheby's Istanbul Art Services Limited (Orjin Binasi Bostan sok. 15 kat 5, Tesvikiye 34367 Nisantasi Istanbul, Turkey), a company incorporated in Turkey during 2009.

On 18 February 2015 the Company acquired 25% of the issued share capital of RM Classic Cars Inc. (1 Classic Car Drive, Blenheim, Ontario, Canada, N0P 1A0), a company whose primary activity is auctioning investment-quality automobiles, for a total consideration of \$15.8m (£10.3m).

Sotheby's Properties Limited facilitates trade for all companies of Sotheby's group with Sotheby's CIS.

Sotheby's Shipping Limited ceased to trade and was made dormant in October 2011. The Company was dissolved via voluntary strike off on 23 March 2021.

Art Development (India) Limited ceased to trade and was made dormant. The company was dissolved via voluntary strike off on 2 November 2021.

Sotheby's Distribution Limited ceased to trade and was made dormant. The company was dissolved via voluntary strike off on 2 November 2021.

Catalogue Distribution Company Limited ceased to trade and was made dormant. The company was dissolved via voluntary strike off on 26 October 2021.

The directors are of the opinion that the aggregate value of the shares in and amounts owing from the subsidiaries is not less than the aggregate of the amounts at which they are stated in the Company's Balance sheet.

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. Debtors

	2021 £000	2020 £000
Due after more than one year		
Other debtors	976	1,437
	<u>976</u>	<u>1,437</u>
Due within one year		
Gross amounts receivable from auction	146,306	92,830
Amounts owed by parent company	114	114
Amounts owed by own subsidiaries	62	2,979
Amounts owed by fellow subsidiaries	166,023	148,096
Other debtors	8,295	9,979
Prepayments and accrued income	6,631	3,635
Tax recoverable	1,228	1,791
	<u>328,659</u>	<u>259,424</u>

On 2 December 2020, the Company entered into a loan agreement with the fellow group undertaking Bidfair USA, Inc. for £44,460,595. The loan is repayable on demand and interest is charged at 5.8% per annum (accruing daily and calculated on the basis of a 365 day year).

The remaining amounts owed by the group companies are non-interest bearing, unsecured receivables and are repayable on demand.

17. Deferred tax

Deferred taxation comprised the following balances at year end:

	Accelerated capital allowances £000	Share- based payments £000	DB pension scheme £000	Total £000
Opening balance at 1 January 2021	428	(764)	666	330
Charged / (credited) to profit or loss	266	542	(373)	435
Tax rate adjustment (current / deferred tax)	135	(241)	-	(106)
Tax rate adjustment charged to OCI	-	-	-	-
Prior year adjustment	4	-	-	4
OCI actuarial adjustment	-	-	(113)	(113)
Closing balance at 31 December 2021	<u>833</u>	<u>(463)</u>	<u>180</u>	<u>550</u>

SOTHEBY'S

**NOTES TO THE FINANCIAL STATEMENTS
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18. Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Gross amounts payable to auction creditors	173,904	131,171
Amounts owed to own subsidiaries	1,153	2,238
Amounts owed to fellow subsidiaries	19,869	20,457
Other taxation and social security	11,686	11,585
Other creditors	6,293	10,683
Payments on account	7	13
Employee loans	29	12
Deferred gain on the sale and leaseback arrangement	1,455	1,450
Accruals and deferred income	30,174	19,730
	244,570	197,339

The amounts owed to the group companies are non-interest bearing, unsecured payables and are repayable on demand.

At the date of transfer, the fair market value of the London properties based on the leaseback arrangement (£229,310,000) was greater than the fair value of the properties on a vacant possession basis (£200,195,000). The excess paid of £29,115,000 is considered unrealised profit and has been deferred and amortised over the period of the lease. The amount included above represents the amount to be amortised within one year.

19. Creditors: amounts falling due after more than one year

	2021	2020
	£000	£000
Deferred gain on the sale and leaseback arrangement	26,082	27,544

This represents the deferred gain on the sale of the London Properties which will be amortised after more than one year. Please see note 18 above for more information.

SOTHEY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Provisions

	Loss and damage claims £000	Deferred taxation £000	Other £000	Total £000
Opening balance at 1 January 2021	1,496	330	622	2,448
Charged to profit or loss	170	333	-	503
Credited to other comprehensive income	-	(113)	-	(113)
Released during the year	(228)	-	(331)	(559)
Utilised during the year	(974)	-	-	(974)
	<u>464</u>	<u>550</u>	<u>291</u>	<u>1,305</u>
Closing balance at 31 December 2021				

The provision for loss and damage claims will be utilised as and when loss and damage claims are settled. The duration of a claim prior to settlement varies from claim to claim.

Other provisions mainly relate to National Insurance payable on exercise of stock options and upon payment in lieu of restricted stock vesting outstanding at the reporting date.

Please see note 17 for what comprises the Deferred taxation balances at the reporting date.

21. Called-up share capital

	2021 £000	2020 £000
Authorised		
19,890,000 (2020: 19,890,000) ordinary shares of £1.00 each	<u>19,890</u>	<u>19,890</u>
	2021 £000	2020 £000
Allotted, called up and fully paid		
19,000,000 (2020: 19,000,000) ordinary shares of £1.00 each	<u>19,000</u>	<u>19,000</u>

Ordinary shares are entitled to voting and dividend rights.

SOTHEYBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

22. Capital and reserves

The Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares.

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

The revaluation reserve represents the cumulative effect of revaluations that arose from the professional valuation of certain freehold and long leasehold properties in 1976, based on their open market value at that time.

Accumulated other comprehensive income represents the unrealised gain on disposal of property in return for shares.

23. Retirement benefit schemes

The group operates a defined benefit scheme in the UK. A full actuarial valuation of the scheme was carried out as at 30 September 2018 and updated to 31 December 2020 by a qualified independent actuary. As the scheme closed to accrual on 30 April 2016, the Company is not expected to pay any regular contributions during 2022, and no other contributions are currently due under the Schedule of Contributions.

In July 2018, approximately £100 million of debt securities were sold in order to purchase a buy-in annuity contract (the "First Buy-in Annuity") from an insurer. The intent of the buy-in annuity contract is to generate returns designed to match the funding of pensioners currently receiving payments from the plan. In particular, the buy-in annuity contract offers the ability to lock-in the cash value of a portion of the pension benefit obligation and significantly reduce future volatility in plan assets.

In October 2020, a second buy-in annuity (the "Second Buy-in Annuity") was purchased from a second insurer in order to fully secure the benefits of the UK Pension Plan. The Second Buy-in Annuity was funded with the sale of remaining plan assets sufficient to purchase the annuity contract. Both annuity contracts are held by the UK Pension Plan in order to fund benefit payments as they become due. Sotheby's continues to hold the risks associated with the UK Pension Plan. On 1 January 2022 Sotheby's initiated the wind-up of the Scheme. The insurance policies, that were previously under the Trustees' name, were converted into individual member policies over the first half of 2022. The risks associated with the UK Pension Plan therefore had been almost completely removed from Sotheby's by 30 June 2022 while the members' benefit entitlements were fully provided through the individual member policies. The remaining steps to conclude the ultimate wind-up of the Plan should now take place before the end of 2022.

The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the projected unit method. The major assumptions used by the actuary were:

	2021 %	2020 %
Rate of increase in salaries	N/A	4.58
Rate of increase to pensions in payment:		
- accrued before 6 April 1997	0	0
- accrued between 6 April 1997 and 5 April 2005	2.93	2.48
- accrued after 5 April 2005	2.11	1.91
Discount rate	1.94	1.25
Inflation	3.42	2.95

SOTHEBY'S

**NOTES TO THE FINANCIAL STATEMENTS
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23. Retirement benefit schemes (continued)

Assumed life expectations on retirement at age 65 are:

	2021	2020
	Year	Year
Retiring today:		
Males	88.3	88.2
Females	89.9	89.9
Retiring in 20 years:		
Males	89.6	89.5
Females	91.3	91.3

Amounts recognised in the profit and loss account:

	2021	2020
	£000	£000
Administration expenses	-	-
Net interest income	2,005	(1,521)
Past service cost	(44)	100
Total income	1,961	(1,421)

Amounts recognised in the balance sheet:

	2021	2020
	£000	£000
Present value of funded obligation	(288,078)	(309,245)
Fair value of scheme assets	289,028	312,750
Total net asset	950	3,505

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the amount recognised in the balance sheet at 31 December was:

	2021	2020
	£000	£000
Property	-	25
Insurance contracts	286,429	308,220
Other - cash	2,599	4,505
Total market value of assets	289,028	312,750

SOTHEBY'S

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

23. Retirement benefit schemes (continued)

Reconciliation of the present value of the scheme liabilities:

	2021	2020
	£000	£000
Opening balance	309,245	267,670
Net interest cost	3,818	5,488
Actuarial loss	(17,316)	46,205
Benefits paid	(7,669)	(10,218)
Past service cost	-	100
Closing balance	288,078	309,245

Reconciliation of the present value of the scheme assets:

	2021	2020
	£000	£000
Opening balance	312,750	340,646
Interest on plan assets	3,862	7,009
Actual loss on plan assets	(17,910)	(24,687)
Benefits paid	(7,669)	(10,218)
Running costs	(2,005)	-
Closing balance	289,028	312,750

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

24. Other commitments and contingent liabilities

Guarantees

A guarantee against deliberate forgery, subject to the terms of the applicable conditions of sale in the catalogues, is given to the purchaser by the Company in respect of most of the property sold at auction.

Guarantees are normally valid for five years from the date of sale. Claims against the Company under such guarantees are not material at the reporting date. There are various claims and legal actions pending against the Company. In the opinion of the directors, they are unlikely to result in a material liability to the Company.

On certain occasions, the Company will guarantee to the consignor a minimum price in connection with the sale of property. The Company must perform under its guarantee only in the event that the property fails to sell for the guaranteed price, in which case the Company pays the consignor the guaranteed price and sells the property for the best price available. At the reporting date there were one outstanding guarantee with a total value of £46,262,000 (2020: two outstanding guarantees with a total value of £2,750,000).

Operating lease commitments

At 31 December the Company was committed to making the following payments in respect of operating leases:

	2021 £000	2020 £000
Total future minimum lease payments:		
within one year	13,245	13,085
within one to five years	50,343	50,198
after five years	145,060	157,531
	<u>208,648</u>	<u>220,814</u>

As part of the transfer of freehold and virtual freehold property to 34-35 New Bond Street Limited on 30 November 2020, the Company entered into a leaseback agreement so that the Company can continue to occupy the properties. The lease agreements are for a 20-year period, with a total annual rent due of £9,355,280, payable on a quarterly basis.

Capital commitments

At the reporting date, the Company had not irrevocably committed to any capital contracts (2020: £Nil).

Other

The Company also becomes involved, from time to time, in various claims and lawsuits incidental to the ordinary course of its business. The Company does not believe that the outcome of any such pending claims or proceedings will have a material effect upon its business or financial condition.

SOTHEBY'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

25. Financial instruments

The following table details the forward foreign currency contracts outstanding as at the year-end:

Outstanding contracts	Principal value		Fair value	
	2021 £000	2020 £000	2021 £000	2020 £000
	44,761	71,448	742	520

Sotheby's enters into contracts to settle forward contracts in various currencies and maturities, to hedge the exchange rate risk arising from these anticipated future transactions. These instruments are not designated as hedging instruments for accounting purposes. At the reporting date the Company had three commitments (2020: seven), equating to a net sale of \$59,326,000 for £44,761,000 during 2021.

The fair value at year end was (£742,000) (2020: (£520,000)). Fair value gains of (£222,000) (2020: £865,000) were recognised in profit and loss during the year.

26. Dividends paid

No dividends were paid during the year (2020: £99,500,000) and dividends of £1,697,000 were received (2020: £Nil). As of the date of this report no dividends have been received or paid in 2022.

27. Related party transactions

Directors and staff of Sotheby's and its subsidiary companies, and their immediate family, can and do buy and sell at auction.

Purchases made by directors, key management and their immediate family of either Sotheby's or its intermediate or ultimate parent throughout the year totalled £56,229,702 (2020: £64,488,000).

The total amount which remained outstanding at the reporting date was £31,354,205 (2020: £3,346,000).

Sales made throughout the year totalled £Nil (2020: £1,820,000), of which £Nil (2020: £Nil) remained outstanding at the reporting date.

The Company has taken advantage of the exemption granted by FRS 102 Section 33 'Related Party Disclosures' not to disclose transactions with group companies who are related parties.

SOTHEYB'S

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

28. Ultimate controlling party

The immediate parent company is Oatshare Limited, a company incorporated in England and Wales.

As at the reporting date the smallest group for which consolidated accounts are prepared, was Sotheby's (Delaware), 1334 York Avenue, New York, NY 10021, a company incorporated in the United States of America. Copies of the financial statements of Sotheby's (Delaware) can be obtained at sothebys.com.

The largest group for which consolidated accounts are prepared, was headed by Bidfair Luxembourg S.à.r.l. 5, rue Eugene Ruppert, Grand Duchy of Luxembourg, N4 L-2453, incorporated in the state of Luxembourg.

The Company's ultimate parent is Next Alt S.à.r.l. 5, rue Eugene Ruppert, Grand Duchy of Luxembourg, N4 L-2453, incorporated in the state of Luxembourg. The directors consider Mr. Patrick Drahi to be the ultimate controlling party.

29. Subsequent events

In February 2022, the Company acquired an additional 50% ownership interest in RM Classic. As a result, we have significant governance participation as well as controlling financial interest in RM Classic. The Company is in the process of finalizing the acquisition.

The Company does not believe the ongoing conflict in Ukraine will have a material impact on the operations of the business. Clients living in Russia represented less than 2% of the Company's total bidders between 2018 and 2020. We have a small administrative office in Moscow, which has been closed following the outbreak of war, and we are carefully monitoring all sanctions and legal actions that have been imposed as a result of the situation and are diligently ensuring our full compliance with those requirements.