

SOTHEBY'S HOLDINGS, INC. ANNUAL SHAREHOLDER MEETING SPEECHES

May 4, 2005

Speaker: Michael Sovern -

When we met a year ago, I told you that we were expecting 2004 to be significantly better than our recent past. The year lived up to its promise. Our fundamental commitment to you, our shareholders, has been a return to profitability and we are delighted to report to you that in 2004 we achieved that goal. With our auction sales up almost a billion dollars, we realized net income from continuing operations of \$35.6* million, not counting the license fee revenue from our sale of the real estate business and other special items.

To get a sense of how impressive 2004 was, consider these accomplishments:

- Sotheby's sold eight of the top ten lots at auction in 2004.
- Sotheby's sold the most expensive painting ever sold at auction, Pablo Picasso's *Garçon à la Pipe*, for \$104.2 million. It helped make the Whitneys Greentree Foundation sale the largest single owner sale in Sotheby's history - a total of \$213.2 million.
- Sotheby's was also the agent for possibly the most successful private sale ever, the landmark sale of the Forbes Collection of Fabergé to Russian industrialist Victor Vekselberg, who has repatriated the collection to Russia.
- Early in 2004, we sold Sotheby's International Realty to Cendant Corporation for approximately \$100 million, a move designed to maximize the value of the asset to our shareholders.
- We also closed a three-year revolving credit agreement of \$200 million, which dramatically expanded our financing capabilities and the flexibility of this organization as a whole.
- Continuing the art market rebound that began in the fourth quarter of 2003, our full year 2004 auction sales were \$2.7 billion, up 59% from \$1.7 billion in 2003. This translated into EBITDA of \$109.5* million, a \$74.3 million increase from the prior period; operating income of \$85.4* million, a \$76.2 million increase from the prior year; and net income of \$35.6* million, a \$50 million increase from 2003. All of these figures are from continuing operations and exclude the license fee revenue from the Cendant transaction, employee retention costs, net restructuring and special charges.
- Turning to the current year, I am pleased to tell you that we are off to a strong start again, with first quarter auction sales up 53% over the first quarter of 2004.

These significant accomplishments would not have been possible without the exceptional efforts of our employees who are without equal in the auction world. We are deeply grateful to all of them. Our thanks also go to our management team and to our Board of Directors whose wise counsel and steadfast support have been indispensable. In particular, we would like to express our heartfelt thanks to Max Fisher, our Vice Chairman who, sad to say, passed away in March. For the past twenty years, Max played a key role at Sotheby's. He was the epitome of wisdom and integrity and it is impossible to acknowledge adequately his many contributions to our firm. We extend our deepest condolences to his wife Marjorie and his family.

Finally, I welcome the opportunity to thank Bill Ruprecht, whose outstanding leadership and selfless commitment to the people of this great firm are deeply appreciated. This leads quite naturally to my yielding the floor to him.

Speaker: Bill Ruprecht -

Thank you, Michael. 2004 was certainly a wonderful year for Sotheby's. I would like to extend my appreciation to all those many people from Sotheby's, as well as our clients around the world, whose passionate enthusiasm for the arts have helped us over the last year.

Auction - 2004

In 2004, we sold approximately 270 lots for \$1 million and above which is almost double the 140 sold last year. We also increased the average selling price per lot by an astounding 80%. Among the most notable lots sold besides

the historic Picasso were Paul Gauguin's *Maternite (II)*, which sold for a record \$39.2 million in November, Amedeo Modigliani's *Jeanne Hébuterne (Devant une Porte)*, which sold for a record \$31.4 million in November and Johannes Vermeer's *A Young Woman Seated at the Virginals*, which sold for a record \$30.0 million in July. Other notable sales include the record breaking Hong Kong sales in October, the extremely strong winter American Paintings sale and a number of incredible single owner sales.

2005 Auctions

Auction sales in 2005 have gotten off to a tremendous start. In New York, our Old Masters Paintings sale performed extremely well, leading the market with sales over \$44 million. Our Americana Week sales led the market as well and totaled \$25.3 million, an 86% increase from the prior year. And last month, our Russian Paintings sale led the market and brought an incredible \$35.2 million, almost double its pre-sale estimate of \$15/\$22 million and the highest total ever for a sale of Russian Art worldwide.

Our February London Impressionist and Contemporary sales also saw exceptional results. The Impressionist and Modern Art sales brought \$103.8 million, up 37% from last year's sale. The Contemporary Art sales also fared quite well with a total of \$42.0 million and the evening sale achieving the highest total ever for a European Contemporary sale at Sotheby's.

Last night brought another slate of noteworthy results with the evening sales of Impressionist and Modern Art totaling \$91.3 million. The highlights of the sale were Max Beckmann's *Self-Portrait with Crystal Ball* which sold for \$16.8 million, above its high estimate of \$15 million and Pablo Picasso's *Les Femmes d'Algers* which sold for \$16.8 million.

Looking ahead to the upcoming sales in New York, there are a number of exciting auctions on the calendar. Next week is our series of Contemporary Art sales which is estimated between \$81.9 and \$113.3 million in total. Highlights include works by Andy Warhol, Chuck Close, Jeff Koons, Jean-Michel Basquiat, Roy Lichtenstein, and Willem de Kooning. Also this month is our American Paintings sale which is estimated between \$31.5 and \$45.4 million in total. And later in the year, we have wonderful American paintings from the New York Public Library's private collection to sell which are estimated between \$50 and \$75 million in total.

In Europe, Sotheby's has a number of extraordinary sales on the horizon. Included in these are two amazing house sales. Later this month in London, Sotheby's will sell a large collection of selected paintings, furniture and works of art from Easton Neston house in Northamptonshire. Easton Neston is widely considered to be one of the most beautiful country houses in England and its contents are no less magnificent. The three day sale is expected to bring in excess of \$9 million. This fall in Germany, the contents of the Marienburg Castle are to be sold which include works belonging to the former royal ruling house of Hanover. The sale is expected to achieve an excess of \$16 million for its more than five thousand lots. We are also looking forward to a very strong series of London Impressionist and Modern Art sales in June.

Closing:

At this time, I would like to welcome our newest addition to our Board of Directors, Mr. Allen Questrom. Mr. Questrom is the former Chairman and Chief Executive Officer of J.C. Penney Company and came J.C. Penney from Barneys New York, Inc., where he was Chairman, President and Chief Executive Officer. We are extremely pleased to welcome him to our family and look forward to his contributions to Sotheby's Board and its shareholders.

Through our emphasis on building our team and delivering value to our clients, Sotheby's was the clear leader in the auction marketplace last year in every measurable way. As we move into 2005, we are very pleased with our return to profitability and our focus and commitment to profitability remain as strong as ever, as does our determination to deliver value to you, our shareholders. As the results of 2005 to date demonstrate, the art market is strong and we are optimistic that it will continue so. We extend our thanks and appreciation to you, to our management and to our Board of Directors for your continuing support.

Speaker: Michael Sovern -

Thank you, Bill. At this time, I will open the floor to any shareholder who would like to ask either Bill or me a question.

Please identify yourself before asking your questions.

* Denotes non-GAAP financial measure. See Appendix.

APPENDIX

SOTHEBY'S HOLDINGS, INC.
GAAP TO NON-GAAP RECONCILIATIONS

GAAP and non-GAAP Financial Measures:

GAAP refers to generally accepted accounting principles in the United States of America. In this speech, financial measures are presented in accordance with GAAP and also on a non-GAAP basis. All references in this speech denoted by * are to "adjusted" non-GAAP financial measures. Management believes that the use of these non-GAAP financial measures enable management and investors to evaluate, and compare from period to period, the Company's results from operations in a more meaningful and consistent manner. A reconciliation of GAAP to non-GAAP financial measures is included below:

	Twelve Months Ended December 31,	
	2004	2003
(Thousands of dollars, except per share data)		
GAAP Income (Loss) from Continuing Operations	\$62,393	(\$26,038)
<u>Adjustments, net of tax effects (a):</u>		
License fee revenue (e)	(29,734)	0
License fee expenses (e)	1,405	0
Retention costs (b)	182	5,951
Net restructuring charges (c)	93	3,542
Special charges (d)	1,230	2,187
Adjusted Income (Loss) from Continuing Operations	<u>\$35,569</u>	<u>(\$14,358)</u>
GAAP Operating Income (Loss) from Continuing Operations	\$126,662	(\$7,426)
<u>Adjustments:</u>		
Other (expense) income	261	673
Depreciation and amortization	23,830	25,321
EBITDA from Continuing Operations	150,753	18,568
<u>Adjustments:</u>		
License fee revenue (a)	(45,745)	-
License fee expenses (a)	2,161	-
Retention costs (b)	285	8,466
Net restructuring charges (c)	146	5,039
Special charges (d)	1,928	3,112
Adjusted EBITDA from Continuing Operations	<u>\$109,528</u>	<u>\$35,185</u>
GAAP Operating Income (Loss) from Continuing Operations	\$126,662	(\$7,426)
<u>Adjustments:</u>		
License fee revenue (a)	(45,745)	-
License fee expenses (a)	2,161	-
Retention costs (b)	285	8,466
Net restructuring charges (c)	146	5,039
Special charges (d)	1,928	3,112
Adjusted Operating Income from Continuing Operations	<u>\$85,437</u>	<u>\$9,191</u>

- (a) The effective tax rate related to continuing operations for the twelve months ended December 31, 2004 and 2003 was approximately 36% and 30%, respectively.
- (b) Consists of costs related to the Company's former employee retention programs.
- (c) Consists of net credits or charges related to the Company's restructuring plans.
- (d) Consists of net charges related to the investigation by the Antitrust Division of the United States Department of Justice, other governmental investigations and the related civil antitrust litigation.
- (e) Represents the revenue and associated expenses relating to the license agreement entered into in conjunction

with the sale of the Company's real estate brokerage business.