

## **SOTHEBY'S HOLDINGS, INC.**

### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS (As of May 4, 2005)**

#### **I. PURPOSE**

The primary purpose of the Audit Committee (the "Committee") shall be to assist the Board of Directors (the "Board") in fulfilling its responsibility for the integrity of the company's financial reports. To carry out this purpose, the Committee shall oversee: (A) management's conduct of the Company's financial reporting process, including the integrity of the financial statements and other financial information provided by the Company to governmental and regulatory bodies, to shareholders and other securityholders, or to other users of such information, (B) the Company's compliance with legal and regulatory requirements, including those within the scope of the responsibilities of the compliance department, (C) the appointment, qualifications (including independence) and performance of the Company's independent auditor and the quality of the annual independent audit of the Company's financial statements, (D) the performance of the Company's internal audit function and management's establishment and application of the Company's systems of internal accounting and financial controls and disclosure controls, and (E) the adequacy of and adherence to (including any waivers from adherence to) the Company's code of business conduct and ethics, as established by the Board, and such other matters as are incidental thereto. The Committee shall also carry out such other functions as shall from time to time be assigned to it by the Board of Directors.

In carrying out its purpose, the goal of the Committee shall be to serve as an independent and objective monitor of the Company's financial reporting process and internal control systems, including the activities of the Company's independent auditor and internal audit function, and to provide an open avenue of communication with the Board of Directors for, and among, the independent auditor, internal audit operations, the compliance department and financial and executive management.

For purposes of this Charter, reference to the business or affairs of the Company shall include the business or affairs of any subsidiary of the Company whose results of operations are consolidated with those of the Company for financial reporting purposes. The Committee's oversight shall also extend to any company controlled by the Company, even though its results of operations are not so consolidated, to the extent that the Committee shall consider appropriate.

#### **II. COMMITTEE MEMBERSHIP; CHAIR**

The Committee shall be comprised of three or more members of the Board of Directors, selected by the Board, each of whom has been determined by the Board of Directors to be "independent" in accordance with the criteria established by the U.S.

Securities and Exchange Commission (“SEC”) under Section 301 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and the corporate governance listing standards of the New York Stock Exchange, Inc. (“NYSE”). This includes a requirement that each member of the Committee be determined by the Board not to be an "affiliated person" of the Company and not to have accepted any consulting, advisory or other compensatory fee from the Company except in his or her capacity as a member of the Board, the Committee or any other committee of the Board. No member of the Committee may serve on the audit committee of more than three public companies, including the Company, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Such determination shall be disclosed in the annual proxy statement.

All members of the Committee must be familiar with basic finance and accounting practices, be able to read and understand financial statements, be familiar with the Company’s financial statements, and be “financially literate” within the meaning of the corporate governance listing standards of the NYSE, as determined by the Board of Directors. At least one member must be a “financial expert” within the meaning of the Sarbanes-Oxley Act, as determined by the Board of Directors.

The members of the Committee shall be elected by the Board and shall serve until their successors shall be duly elected and qualified. Any member may be removed, with or without cause, by the Board of Directors at any time and the Board can fill any vacancy created in the Committee.

The Board of Directors may appoint one member to be the Chairman of the Committee. If the Board fails to appoint a Chairman, the members of the Committee shall elect a Chairman by majority vote of all members. In the absence of the Chairman, the members present at a meeting may elect a Chairman for the meeting. The Chairman will preside at meetings of the Committee and, subject to action by the entire Committee, set the agenda for Committee meetings.

### III. COMMITTEE MEETINGS; ACTION BY THE COMMITTEE

The Committee shall establish a regular meeting schedule, shall regularly meet at least quarterly, and shall meet more frequently as the members deem appropriate and as circumstances dictate. Any member of the Committee may call a special meeting of the Committee by notice given to all members. Notice of meetings shall be given at least 48 hours in advance, provided that, if exigencies of the circumstances pertaining to the matters to be addressed warrant, any lesser notice reasonable under the circumstances shall be sufficient. No notice of a regularly scheduled meeting shall be required. Notice may be waived by any member as permitted by law. A meeting of the Committee may be held telephonically or by other means of communication, provided that each member present may hear and communicate with each other member present.

Two members of the Committee present in person or by telephone shall constitute a quorum, and action of the Committee shall be by no less than two members

of the Committee; provided, however, if this Charter or the Committee or the Board so provides, the Chairman may act on behalf of or represent the Committee.

The Committee may form and delegate authority to subcommittees consisting of one or more members whenever it considers appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that the decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting and all other actions taken by a subcommittee shall be reported to the Committee on a regular basis. The Chairman of the Committee is delegated authority to act for the committee as a subcommittee thereof in respect of any matter on which the Committee may act whenever the exigencies of the circumstances pertaining to such matter make such action appropriate, except with respect to the retention or dismissal of the Company's independent auditor. The requirements for action by a subcommittee shall, except as otherwise provided by act of the Committee, be the same as those applicable to the Committee.

The Committee shall meet regularly, which shall be not less often than once annually, in separate executive sessions, with each of (i) the Company's senior executive and financial officers, (ii) the supervisor of the Company's internal auditing function, (iii) the Company's Worldwide Director of Compliance and (iv) the Company's independent auditor to discuss any matters that the Committee or any of these individuals or groups believe would be appropriate to discuss privately. In addition, the Committee should meet with the independent auditor and management quarterly to review the company's quarterly or year-end annual financial statements.

The Committee may invite to its meetings any director, any member of the management of the Company and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any person not a member, as it deems appropriate in order to carry out its responsibilities. All non-management directors who are not members of the Committee may attend regularly scheduled meetings of the Committee (but may not vote in respect of Committee matters), except as the Committee may otherwise provide.

#### IV. RESPONSIBILITIES AND AUTHORITY

The Committee shall carry out its responsibility for the integrity of the company's financial reporting by performing the activities specified by this Charter and such other activities as the Committee shall from time to time consider appropriate. The Committee shall also carry out any other responsibilities assigned to it by the Board of Directors from time to time.

It is recognized that the Company's management is responsible for the Company's internal controls, which includes the Company's Disclosure Controls and Procedures and Internal Control over Financial Reporting, and preparing the Company's financial statements. The independent auditors are responsible for auditing the financial statements and expressing opinions on the financial statements and on management's

assessment of the effectiveness of the Company's Internal Control over Financial Reporting. It is further recognized that the Company's financial management, the internal audit staff and the outside auditors have more time, information concerning the Company and expertise in financial reporting matters pertaining to the Company than do Committee members and that, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditor's work.

In fulfilling its responsibilities, the Committee shall have full access to the Company's books, records, facilities and personnel and the power and authority to investigate any matter brought to its attention. The Committee shall have authority to require any officer of the Company and the persons performing the Company's internal audit function to render to it any report it considers appropriate to carry out these responsibilities. All employees of the Company shall be required to cooperate with the Committee and with any person authorized to act on its behalf in any inquiry being conducted by the Committee. In connection with any inquiry or investigation by the Committee, or as the Committee may otherwise consider appropriate to the carry out its responsibilities, the Committee shall be entitled to retain outside legal, accounting, financial or other experts and advisors and shall be provided funding from the Company sufficient to engage such persons. The Committee shall have the authority to determine the compensation to be paid and the other terms of such engagement. The Company shall provide adequate funding for the operation of the Committee and the appropriate officers of the Corporation are hereby authorized to expend the funds necessary for the conduct of the Committee's business upon direction of the Committee or the Chairman thereof, without further authorization of the Board of Directors.

In order to carry out its purpose, the Committee has been delegated by the Board of Directors, and shall have, authority and power over, and shall be responsible for, the following specific matters and shall carry out the following specific functions, subject, however, to any further action that may be taken by the Board of Directors:

#### Supervision of the Independent Audit of the Company's Financial Statements

1. the selection, appointment, termination, evaluation, compensation and oversight of the work of the Company's independent auditor, including approval of the terms and scope of its engagement to conduct an annual audit of the Company's financial statements, subject to ratification by the shareholders of the Company of such appointment.
2. in connection with the selection of the Company's independent auditor, and consistent with any rules or regulations that may be promulgated by the SEC or the NYSE, obtaining and reviewing annually a report by the independent auditor describing: (i) the auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent

audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the independent auditors and the Company;

3. consistent with any rules or regulations that have been or may be promulgated by the SEC or the NYSE, approval on behalf of the Company in advance of any audit services to be provided to the Company by the independent auditor and, to the extent permitted by law to be provided by the independent auditor, any non-audit services to be provided to the Company by it; provided, that the independent auditor shall be precluded from providing internal audit services for the Company and any other consulting services other than accounting, tax or benefits related services; and provided, further, that the provision by the independent auditor of permitted non-audit services shall be permissible without the prior approval of the Committee in cases where (i) the aggregate compensation for all such non-audit services constitutes not more than 5% of the total compensation payable by the Company to the auditor for the fiscal year of the Company in which such non-audit services are provided, (ii) such non-audit services were not considered by the Committee as services that might be provided to the Company by the independent auditor at the time of its appointment, and (iii) the provision of such services by the independent auditor are promptly brought to the attention of the Committee and approved prior to completion of the audit for the year in which such services were provided (which approval may be provided by the Chairman of the Committee or any other member or members to whom the Committee delegates such approval authority);
4. reviewing and evaluating, at least annually, the qualifications, performance and independence of the Company's independent auditor and reporting to the Board on the conclusions of its review; in conducting its review and evaluation, the Committee should:
  - (a) determine whether the lead audit partner (having primary responsibility for the audit) or the audit partner responsible for reviewing the audit is required to rotate, and has rotated, in compliance with applicable law,
  - (b) take into account the opinions of management and the Company's internal auditors (or other personnel responsible for the Company's internal audit function), and
  - (c) consider whether, in order to assure continuing auditor independence, there should be a regular rotation of the firm conducting the independent audit;
5. consistent with any rules or regulations that have been or may be promulgated by the SEC or the NYSE, establishing hiring policies for the Company in respect of employees and former employees of the independent auditor;

6. reviewing (i) any audit problems or difficulties encountered in the course of the work of the independent auditor, including any restrictions on the scope of activities or access to required information; (ii) any changes required in the planned scope of the audit plan; (iii) the budget for and staffing of the independent audit function; and (iv) the coordination of audit efforts between the independent auditor and the Company's internal audit function in order to further completeness of coverage, reduction of redundant efforts, and the effective use of audit resources;
7. the resolution of any disagreement between management and the independent auditor regarding the presentation of the Company's financial position and results of operations in the Company's financial statements;

#### Overview of the Internal Audit Function, Internal Controls and Financial Reports

8. reviewing with the independent auditor and management: the adequacy of the Company's Disclosure Controls and Procedures and Internal Control over Financial Reporting , including computerized information system controls, procedures and security and including any report provided by the internal audit function to the chief financial officer or chief executive officer regarding any material aspect of the Company's internal accounting and financial control system; and, in such regard, (i) management and the independent auditor shall brief the Committee on any material weaknesses or significant deficiencies in the design or operation of the Company's internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and any fraudulent activity, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls which come to their attention, (ii) the Committee shall review the status of any such material weaknesses or significant deficiencies and the actions that management proposes to take with respect thereto, and (iii) the Committee shall review management's annual assessment of the Company's internal controls and procedures for financial reporting and the independent auditor's annual attestation of such assessment, as such are required by SEC rules;
9. reviewing (i) any audit problems or difficulties encountered in the course of the conduct of the internal audit function, including any restrictions on the scope of activities or access to required information; (ii) any material changes required in the planned scope of the annual internal audit plan; (iii) the qualifications, capabilities and leadership of the Company's internal audit function, including approval by the Committee of the appointment and dismissal of the head of the internal audit function or any firm performing the internal audit function, and (iv) the coordination of audit efforts between the independent auditor and the Company's internal audit function in order to further completeness of coverage, reduction of redundant efforts, and the effective use of audit resources;

10. establishing and overseeing the maintenance of procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters;
11. reviewing and discussing quarterly reports from the independent auditors on: (i) all critical accounting policies and practices to be used in the preparation of the Company's financial statements; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management for use in the Company's financial statements, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and (iii) other material written communications between the independent auditor and management regarding the Company's financial reports;
12. reviewing with the independent auditor (i) all of its significant findings during the year, including the status of previous audit recommendations, (ii) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (iii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iv) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Company;
13. reviewing the Company's financial statements, including (i) prior to public release of the Company's annual and quarterly financial statements to be filed with the SEC, (A) reviewing such financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and (B) discussing with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61, (ii) with respect to the independent auditor's annual audit report and certification, before release of the annual audited financial statements, meeting separately with the independent auditor without any management member present and discussing the adequacy of the Company's system of internal accounting and financial controls, the appropriateness (not just the acceptability) and the degree of aggressiveness or conservatism of the accounting principles used in and the judgments made in the preparation of the Company's audited financial statements and the quality of the Company's financial reports, and (iii) making a recommendation to the Board of Directors regarding the inclusion of the audited annual financial statements in the Company's Annual Report on Form 10-K to be filed with the SEC;
14. reviewing with management and the independent auditor the Company's policies and practices regarding earnings press releases (including the use of any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies; it being

- understood, however, that the Committee need not discuss in advance each earnings press release or each instance in which the Company may provide earnings guidance;
15. reviewing with management and the independent auditor significant risks or exposures to the Company's business and assessing the steps management has taken to minimize such risks and the Company's underlying policies and guidelines with respect to risk assessment and risk management;
  16. reviewing periodically the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company;

#### Legal Compliance and Code of Conduct

17. reviewing periodically with the Company's Worldwide General Counsel legal and regulatory matters that may have a material impact on the Company's financial statements;
18. reviewing with the Worldwide Director of Compliance all such matters as the Committee deems appropriate, including the programs and procedures to promote compliance with laws and regulations, Company policy and the Company's code of conduct (including Compliance Policies); any significant findings and management's responses to them; any serious difficulties the compliance department encountered while conducting its audits, including any restrictions on the scope of its work or access to required information; the compliance audit plan, including its planned scope and any changes or omissions the Committee thinks advisable; and the level of staffing and qualifications of the compliance department;
19. reviewing at least annually with senior management the provisions of the Company's code of business conduct and ethics (including the Company's policies and procedures with regard to trading by Company personnel in securities of the Company and use in such trading of proprietary or confidential information) as adopted by the Board of Directors or senior management and the Company's policies and procedures for enforcement thereof, including any waivers provided under such code since the last annual review, making recommendations to the Board with regard to any changes to the provisions of such code that the Committee considers appropriate and acting on behalf of Company to approve or deny any waivers of the requirements or restrictions of such code sought by or for any officer; provided that any such waiver granted shall be reported by the Committee to the Board and approval of the Board shall also be required for any such waiver applicable to any officer who is a member of the Board;

### General

20. preparing all reports required to be included in the Company's proxy statement by the Company's audit committee, pursuant to and in accordance with applicable rules and regulations of the SEC;
21. reporting regularly to the Board of Directors following each meeting, which reports shall include any issues that arise with respect to the quality or integrity of the company's financial statements and with respect to such other matters as are relevant to the Committee's discharge of its responsibilities and, in such regard, the Committee shall provide such recommendations as the Committee may deem appropriate; and
22. maintaining minutes or other records of meetings and actions of the Committee.

### Annual Self-Evaluation

In addition, the Committee shall conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with this Charter. In addition, the Committee shall annually review and reassess the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable.

### V. INDEMNIFICATION AND EXCULPATION PROVISIONS

The members of the Audit Committee, as Directors and in fulfilling their responsibilities hereunder, shall continue to be fully covered by the exculpation and indemnification provisions applicable to the Company's directors and officers, as set forth in the Company's Articles of Incorporation and Bylaws, and such provisions are adopted by reference herein. Nothing contained herein, in any other document or elsewhere shall abrogate or supersede the protective exculpation and indemnification provisions set forth in the Company's Articles of Incorporation and Bylaws.