



To our shareholders:

The first 4½ years of our journey have yielded some amazing results: we've now served over 17 million customers in over 150 countries and built the leading global e-commerce brand and platform.

In the coming years we expect to benefit from the continued adoption of online commerce around the world as millions of new consumers connect to the Internet for the first time. As the online shopping experience continues to improve, consumer trust and confidence will increase, driving further adoption. And, if we at Amazon.com do our job right, we can be uniquely positioned to serve these new customers best and benefit as a result.

A Recap of 1999

During 1999, our relentless focus on customers worked:

- Sales grew from \$610 million in 1998 to \$1.64 billion – a 169 percent increase.
- We added 10.7 million new customers, increasing cumulative customer accounts from 6.2 million to 16.9 million.
- The percentage of orders placed by repeat customers grew from over 64 percent in the fourth quarter of 1998 to greater than 73 percent in the same period in 1999.
- Customers around the world are now choosing Amazon.com for a wide array of products. Only two years ago, Amazon.com's U.S. Books business represented 100 percent of our sales. Today, despite strong growth in U.S. Books, other areas account for more than half our sales. Major 1999 initiatives included Auctions, zShops, Toys, Consumer Electronics, Home Improvement, Software, Video Games, Payments and our wireless initiative, Amazon Anywhere.
- We've continued to be recognized as best-of-breed not only in our more established areas such as books, but in our newer stores as well. Just to focus on one area, Amazon Toys has received multiple awards, including being rated the best online toy store in an MSNBC survey, a ranking as the No. 1 on-line toy store by Forrester Research, and the top e-Rating from Consumer Reports in the toys category, in each case beating out a number of longer-established players.
- Sales outside of the US accounted for 22 percent of our business, totaling \$358 million. In the U.K. and Germany, we added Music, Auctions and zShops. In fact, Amazon.co.uk, Amazon.de, and Amazon.com are now the #1, #2, and #3 most popular online retail domains in Europe.
- We grew worldwide distribution capacity from roughly 300,000 square feet to over 5 million square feet in less than 12 months.

- In part because of this infrastructure, we were able to grow revenues 90 percent in just three months, while shipping well over 99 percent of our holiday orders in time for the holidays. As far as we can determine, no other company has ever grown 90 percent in three months on a sales base of over \$1 billion.

I'm incredibly proud of everyone at Amazon.com for their tireless efforts to deliver what has become the standard-setting, Amazon.com-class customer experience while simultaneously handling such extraordinary growth rates. If any of you shareholders would like to thank this incredible worldwide team of Amazonians, please feel free to send an email to jeff@amazon.com. With help from my astounding office staff, I'll compile them and send them to the company. I know it would be appreciated. (As a side benefit I'll get to see if anyone reads these letters!)

In 1999, we continued to benefit from a business model that is inherently capital efficient. We don't need to build physical stores or stock those stores with inventory, and our centralized distribution model has allowed us to build a business with over \$2 billion in annualized sales but requiring just \$220 million in inventory and \$318 million in fixed assets. Over the last five years, we've cumulatively used just \$62 million in operating cash.

What Do You Own?

At a recent event at the Stanford University campus, a young woman came to the microphone and asked me a great question: "I have 100 shares of Amazon.com. What do I own?"

I was surprised I hadn't heard it before, at least not so simply put. What do you own? You own a piece of the leading e-commerce platform.

The Amazon.com platform is comprised of brand, customers, technology, distribution capability, deep e-commerce expertise, and a great team with a passion for innovation and a passion for serving customers well. We began the year 2000 with 17 million customers, a world-wide reputation for customer focus, the best e-commerce software systems, and purpose-built distribution and customer service infrastructure. We believe we have reached a "tipping point," where this platform allows us to launch new e-commerce businesses faster, with a higher quality of customer experience, a lower incremental cost, a higher chance of success, and a faster path to scale and profitability than any other company.

Our vision is to use this platform to build Earth's most customer-centric company, a place where customers can come to find and discover anything and everything they might want to buy online. We won't do so alone, but together with what will be thousands of partners of all sizes. We'll listen to customers, invent on their behalf, and personalize the store for each of them, all while working hard to continue to earn their trust. As is probably clear, this platform affords an unusually large scale opportunity, one that should

prove very valuable for both customers and shareholders if we can make the most of it. Despite the many risks and complexities, we are deeply committed to doing so.

Goals for 2000

In the year 2000, Amazon.com has six major goals: growth in both the number of our customers and the strength of the relationship we have with each of them; continued rapid expansion of the products and services we offer; driving operational excellence in all areas of the company; international expansion; expanding our partnership programs; and last, importantly, driving toward profitability in each and every business we are in. I'll spend a moment on each goal.

Growing and strengthening customer relationships — We will continue to invest heavily in introductions to new customers. Though it's sometimes hard to imagine with all that has happened in the last five years, this remains Day 1 for e-commerce, and these are the early days of category formation where many customers are forming relationships for the first time. We must work hard to grow the number of customers who shop with us, the number of products they purchase, the frequency with which they shop, and the level of satisfaction they have when they do so.

Product and service expansion — We are working to build a place where customers can find and discover anything they want to buy, anytime, anywhere. Each new product and service we offer makes us more relevant to a wider group of customers and can increase the frequency with which they visit our store. So, as we expand our offering, we create a virtuous cycle for the whole business. The more frequently customers visit our store, the less time, energy, and marketing investment is required to get them to come back again. In sight, in mind.

Further, as we expand, each new store has a dedicated team working to make it best-of-breed in its category; thus each new store is also a new opportunity to demonstrate to customers our focus on them. Finally, each new product or service further leverages our investments in distribution, customer service, technology, and brand, and can yield increased leverage on our bottom line.

Operational excellence — To us, operational excellence implies two things: delivering continuous improvement in customer experience and driving productivity, margin, efficiency, and asset velocity across all our businesses.

Often, the best way to drive one of these is to deliver the other. For instance, more efficient distribution yields faster delivery times, which in turn lowers contacts per order and customer service costs. These, in turn, improve customer experience and build brand, which in turn decreases customer acquisition and retention costs.

Our whole company is highly focused on driving operational excellence in each area of our business in 2000. Being world class in both customer experience and operations will allow us to grow faster and deliver even higher service levels.

International expansion — We think that consumers outside the U.S. are even more under-served by retail than those within it, and, with our platform in place, Amazon.com is well positioned to be a leading global retailer. We already have significant brand, sales and customer presence around the world, as we've been shipping into over 150 countries for almost five years. I'm pleased to report that our stores in the UK and Germany are off to a strong start – they are already in the top 10 Web properties and the # 1 e-commerce site in each of their respective countries. Our customers and shareholders around the world can look forward to further geographic expansion from this base during the coming year.

Expanding our partnership program — Through our platform, we are able to bring tremendous value to our partners, such as drugstore.com. In fact, our experience so far suggests that Amazon.com may easily be the most efficient, effective means for our partners to build their businesses. In many areas, partnering is the best way for us to rapidly expand our store in a customer-focused, cost-effective manner. One point worth emphasizing: the quality of customer experience a partner delivers is the single most important criteria in our selection process – we simply won't build a partnership with any company that does not share our passion for serving customers.

We love these kinds of partnerships because they please customers, please our partners, and are financially attractive, pleasing our shareholders – you and us.

Drive toward profitability in each business we are in — Each of the previous goals I've outlined contribute to our long-standing objective of building the best, most profitable, highest return on capital, long-term franchise. So in a way, driving profitability is the foundation underlying all of these goals. In the coming year, we expect to deliver substantial margin improvement and cost leverage as we drive continuous improvement in our partnerships with suppliers, in our own productivity and efficiency, in our management of fixed and working capital, and our expertise in managing product mix and price.

Each successive product and service we launch this year should build on our platform, so our investment curve can be less steep and the time to profitability for each business should, in general, continue to shorten.

It's All About the Long Term

In our 1997 letter to shareholders (our first), we detailed our long-term investment approach. Because we continue to add many new shareholders, we've appended that letter immediately after this year's. I invite you to please read the section entitled *It's All About the Long Term*, as it is the best way I know to help make sure we're the kind of company you want to be invested in. As we wrote there, we don't claim it's the right philosophy, we just claim it's ours!

In closing, consider this most important point: the current online shopping experience is the worst it will ever be. It's good enough today to attract 17 million customers, but it will get so much better. Increased bandwidth will result in faster page views and richer content. Further improvements will lead to "always-on access" (which I expect will be a strong boost to online shopping at home, as opposed to the office) and we'll see significant growth in non-PC devices and wireless access. Moreover, it's great to be participating in what is a multi-trillion dollar global market, in which we are so very, very tiny. We are doubly-blessed. We have a market-size unconstrained opportunity in an area where the underlying foundational technology we employ improves every day. That is not normal.

As always, we at Amazon.com remain grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement. Many, many thanks.

Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.



(Reprinted from the 1997 Annual Report)

To our shareholders:

Amazon.com passed many milestones in 1997: by year-end, we had served more than 1.5 million customers, yielding 838% revenue growth to \$147.8 million, and extended our market leadership despite aggressive competitive entry.

But this is Day 1 for the Internet and, if we execute well, for Amazon.com. Today, online commerce saves customers money and precious time. Tomorrow, through personalization, online commerce will accelerate the very process of discovery. Amazon.com uses the Internet to create real value for its customers and, by doing so, hopes to create an enduring franchise, even in established and large markets.

We have a window of opportunity as larger players marshal the resources to pursue the online opportunity and as customers, new to purchasing online, are receptive to forming new relationships. The competitive landscape has continued to evolve at a fast pace. Many large players have moved online with credible offerings and have devoted substantial energy and resources to building awareness, traffic, and sales. Our goal is to move quickly to solidify and extend our current position while we begin to pursue the online commerce opportunities in other areas. We see substantial opportunity in the large markets we are targeting. This strategy is not without risk: it requires serious investment and crisp execution against established franchise leaders.

It's All About the Long Term

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

- We will continue to focus relentlessly on our customers.
- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.
- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.
- When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.
- We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.
- We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.

- We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

We aren't so bold as to claim that the above is the "right" investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take.

With this foundation, we would like to turn to a review of our business focus, our progress in 1997, and our outlook for the future.

Obsess Over Customers

From the beginning, our focus has been on offering our customers compelling value. We realized that the Web was, and still is, the World Wide Wait. Therefore, we set out to offer customers something they simply could not get any other way, and began serving them with books. We brought them much more selection than was possible in a physical store (our store would now occupy 6 football fields), and presented it in a useful, easy-to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience, and in 1997 substantially enhanced our store. We now offer customers gift certificates, 1-Click(SM) shopping, and vastly more reviews, content, browsing options, and recommendation features. We dramatically lowered prices, further increasing customer value. Word of mouth remains the most powerful customer acquisition tool we have, and we are grateful for the trust our customers have placed in us. Repeat purchases and word of mouth have combined to make Amazon.com the market leader in online bookselling.

By many measures, Amazon.com came a long way in 1997:

- Sales grew from \$15.7 million in 1996 to \$147.8 million – an 838% increase.
- Cumulative customer accounts grew from 180,000 to 1,510,000 – a 738% increase.
- The percentage of orders from repeat customers grew from over 46% in the fourth quarter of 1996 to over 58% in the same period in 1997.
- In terms of audience reach, per Media Metrix, our Web site went from a rank of 90th to within the top 20.
- We established long-term relationships with many important strategic partners, including America Online, Yahoo!, Excite, Netscape, GeoCities, AltaVista, @Home, and Prodigy.

Infrastructure

During 1997, we worked hard to expand our business infrastructure to support these greatly increased traffic, sales, and service levels:

- Amazon.com's employee base grew from 158 to 614, and we significantly strengthened our management team.
- Distribution center capacity grew from 50,000 to 285,000 square feet, including a 70% expansion of our Seattle facilities and the launch of our second distribution center in Delaware in November.
- Inventories rose to over 200,000 titles at year-end, enabling us to improve availability for our customers.
- Our cash and investment balances at year-end were \$125 million, thanks to our initial public offering in May 1997 and our \$75 million loan, affording us substantial strategic flexibility.

Our Employees

The past year's success is the product of a talented, smart, hard-working group, and I take great pride in being a part of this team. Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Amazon.com's success.

It's not easy to work here (when I interview people I tell them, "You can work long, hard, or smart, but at Amazon.com you can't choose two out of three"), but we are working to build something important, something that matters to our customers, something that we can all tell our grandchildren about. Such things aren't meant to be easy. We are incredibly fortunate to have this group of dedicated employees whose sacrifices and passion build Amazon.com.

Goals for 1998

We are still in the early stages of learning how to bring new value to our customers through Internet commerce and merchandising. Our goal remains to continue to solidify and extend our brand and customer base. This requires sustained investment in systems and infrastructure to support outstanding customer convenience, selection, and service while we grow. We are planning to add music to our product offering, and over time we believe that other products may be prudent investments. We also believe there are significant opportunities to better serve our customers overseas, such as reducing delivery times and better tailoring the customer experience. To be certain, a big part of the challenge for us will lie not in finding new ways to expand our business, but in prioritizing our investments.

We now know vastly more about online commerce than when Amazon.com was founded, but we still have so much to learn. Though we are optimistic, we must remain vigilant and maintain a sense of urgency. The challenges and hurdles we will face to make our long-term vision for Amazon.com a reality are several: aggressive, capable, well-funded competition; considerable growth challenges and execution risk; the risks of product and geographic expansion; and the need for large continuing investments to meet an expanding market opportunity. However, as we've long said, online bookselling, and online commerce in general, should prove to be a very large market, and it's likely that a number of companies will see significant benefit. We feel good about what we've done, and even more excited about what we want to do.

1997 was indeed an incredible year. We at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.

A handwritten signature in black ink, reading "Jeff P. Bezos". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.