



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.