

**Arm's Length Payments for IP Involved in The
Transfer of Amazon's EU Website Business**

Final Report

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I. Executive Summary

A. Objective of This Report

Certain US and foreign subsidiaries of Amazon.com, Inc. ("ACI")¹ entered into a series of three agreements with effective dates of January 1, 2005. The parties were two US entities, Amazon Technologies, Inc. ("AT") and A9.com, Inc. ("A9"), and one Luxembourg entity, Amazon Europe Holding Technologies SCS ("AEHT"). The agreements were (1) "Amended and Restated Agreement to Share Costs and Risks of Intangible Development (the "Cost Sharing Agreement"), (2) "License Agreement for Preexisting Intellectual Property" (the "License Agreement"), and (3) "Assignment Agreement for Preexisting Intellectual Property" (the "Assignment Agreement").² The entities and agreements are described in more detail below.

The effect of the agreements was to transfer the operation of Amazon's "EU Website Business" to AEHT beginning on the "Business Transfer Date," and to provide for the sharing of the costs of continuing intangible development.³ In particular, the License and Assignment Agreements transferred the intangible property ("IP") necessary to operate the EU Website Business to AEHT.

In September 2006, Deloitte Tax LLP prepared "Amazon.com, Inc., Transfer Pricing Documentation Report" (the "Deloitte Report"). This report computed a series of

¹ In this report, I use "ACI" to refer to the parent corporation and "Amazon" to refer to the worldwide group of companies made up of ACI and its subsidiaries.

² AT and AEHT were parties to all three agreements; A9 was a party to only the Cost Sharing Agreement.

³ Paragraph 1.6 in the Assignment Agreement states, "EU Website Business" means the sale of products and services through the Web sites identified by the URLs: www.amazon.co.uk, www.amazon.de, and www.amazon.fr." Paragraph 1.3 of the Assignment Agreement states, "Business Transfer Date" means the date to be mutually agreed upon by the parties, expected to occur during 2006, upon which the Luxembourg Operating Group commences operation of the EU Website Business." The date was eventually set as April 30, 2006.

payments which, in the opinion of Deloitte, constituted arm's length payments for the IP transferred to AEHT under the License and Assignment Agreements.⁴

The purpose of the present report is twofold. First, I critique the Deloitte Report and discuss whether its analysis and conclusions are well-founded.⁵ I find that they are not. Second, I present my own analysis of the transfer of the IP to AEHT. The objective of my analysis is to estimate the payment or payments that AEHT would have made had it and AT been independent parties operating at arm's length. I conclude that an arm's length party in AEHT's situation would have made a payment or payments for the IP transferred under the License and Assignment Agreements that would have equaled approximately \$3.6 billion in present value.

I am a Managing Director of Horst Frisch Incorporated and an economist who has advised companies and the IRS on transfer pricing matters and has testified as an expert witness on transfer pricing economics in US Tax Court.⁶

B. Summary of Analysis and Conclusions

I have two main conclusions. First, in my opinion the analysis in the Deloitte Report contains a number of fundamental flaws. As a result of these flaws, Deloitte's conclusions regarding the payments made by AEHT in return for the transferred IP are unreasonably low. As I discuss in Section IV.C., the implications of Deloitte's analysis are 1) that over the first seven years of the intercompany agreement, AT would give up

⁴ Deloitte Report, page 5. I understand the taxpayer based its tax return filing position on the analysis in the Deloitte Report. In addition to the Deloitte Report, in preparing this report I relied on data provided by the IRS, including information document request (IDR) responses, Amazon's section 6662(e) transfer pricing penalty documentation, and interviews with Amazon personnel.

⁵ Deloitte estimated the present value of the payments as of December 31, 2004 for the transferred IP to be \$216.7 million. See Deloitte Report, Appendix 9.

⁶ I was assisted in the preparation of this report by my Horst Frisch Incorporated colleagues R. William Morgan, Richard A. Bruch, and Gregory Zartarian.

more than \$9 in expected profit for every \$1 it collected from AEHT as a payment for the IP; 2) AEHT would expect to receive an extremely high 128% rate of return on its IP payments to AT; and 3) AEHT would be allowed, under Deloitte's method, to retain an unreasonably large share of the expected profits arising from the EU Website Business. In my opinion, Deloitte's recommended payments for the IP transferred to AEHT by the License and Assignment Agreements are inconsistent with the arm's length standard.

Second, I conclude that a reasonable estimate of the value of payments that would be in compliance with the arm's length standard is \$3.6 billion. I reach this conclusion based on application of a discounted cash flow analysis, which is discussed in Sections VI and VII below. Discounted cash flow is a widely-accepted valuation technique which is often cited by Amazon's founder and CEO Jeff Bezos as an important financial measure for Amazon (see Section VI.A. below). I confirm the reasonableness of my conclusion with an application of a comparable uncontrolled transaction method using commissions paid to Amazon under a third party sales channel program, Merchants@. I also consider a market value method. These confirming methods are discussed in Section VIII.

This report is organized as follows. Section II presents the facts, including a brief discussion of the entities involved, the European restructuring, the intercompany agreements, and the nature of the IP transferred to AEHT. Section III discusses generally the arm's length standard and transfer pricing methods. I critique the Deloitte Report in Section IV, and conclude that its recommendations do not achieve arm's length results. In Section V I discuss the applicability of the different regulatory methods for valuing intangible property, and conclude that a discounted cash flow approach is

the best method. That method is discussed in Section VI, which is a general discussion of the method, and Section VII, which applies the method under the facts of this case. I conclude that a present value of \$3.6 billion would be consistent with the arm's length standard. Section VIII describes two confirming methods – the comparable uncontrolled transaction method using data from Amazon's third party vendor program Merchants@, and a market value method. Section IX provides a brief summary.

II. Facts

A. Amazon's History and Business

Amazon was founded by Jeff Bezos in Seattle, WA in 1994. It commenced operations during 1995 and went public during 1997.⁷ In 2004, Amazon was the world's largest global Internet retailer, with worldwide sales of \$6.9 billion—three times as much as its closest competitor.⁸ An internationally recognized brand, Amazon had developed a global reputation for convenience, low prices and a wide array of product choices which earned it a loyal customer base. In 2004, 56 percent of all sales came from North American customers and the remaining 44 percent were from Amazon's international operations, located in the UK, Germany, France and Japan.⁹

Amazon began as an online bookseller, but soon diversified its selection to offer products in a broad range of categories, including books, apparel, electronics and housewares. Media, which includes books, music, videos, DVDs, video games, software, and computer games, has consistently been the top-selling product line for Amazon, with electronics making up a large portion of the remainder. In 2004,

⁷ Amazon 2004 Form 10-K, page 3.

⁸ Amazon 2004 Form 10-K, page 37.

⁹ Ibid.

worldwide sales of media products accounted for 74 percent of Amazon's total revenues, with electronics adding an additional 24 percent.¹⁰

Amazon also facilitated the sale of millions of additional products through third-party vendors. Amazon's Marketplace and Merchants@ programs enabled third parties to sell their products on Amazon's websites.¹¹ Through these programs, visitors to Amazon's websites could shop for products owned by third parties using Amazon's features and technologies. Customers could also complete transactions that include multiple sellers (e.g., Amazon and one or more third-party vendors) in a single checkout process. Amazon Marketplace generally served sellers who were individuals and small businesses, while participants in the Merchants@ program were generally larger, branded businesses. These programs gave Amazon's customers access to an even wider selection of products and provided Amazon with an additional revenue stream through commissions and other types of fees paid by the third-party vendors.

Through continuing investment in R&D and an appetite for innovation, Amazon developed proprietary software and technology features aimed at simplifying and improving the online shopping experience. Over the period 2002-2004, Amazon spent an average of 4.9 percent of total sales¹² on "Technology and Content" expenses.¹³ Key features unique to Amazon's websites included editorial and customer reviews, 1-Click technology, "Look Inside the Book" and gift-wrapping options.¹⁴ These features

¹⁰ Ibid.

¹¹ Amazon 2004 Form 10-K, page 5.

¹² Figure includes Technology and Content portion of stock-based compensation. Amazon.com 2004 Form 10-K, page 52.

¹³ Technology and Content expenses "consist principally of payroll and related expenses, including stock-option expenses, for employees involved in development of Amazon's websites, including application development, editorial content, merchandising selection." Amazon.com 2004 Form 10-K, page 61.

¹⁴ Form 10-K, page 52

distinguished Amazon from its competitors and helped it to maintain its status as a market leader.

Customer orders were fulfilled quickly and accurately through Amazon's effective supply-chain and distribution system. From the outset, Amazon's strategy was to hold modest inventories itself and rely primarily on wholesalers to hold inventory. Inventory it did warehouse was stored in one of Amazon's strategically located distribution centers.¹⁵ The use of specialized software programs and technology systems allowed Amazon to determine accurate time-frames for shipment, the most cost-effective delivery options and customer demand for different geographic regions and times of year.

In addition to providing fast and accurate delivery services, Amazon's effective handling of inventory and short-term capital generated cash to help cover its operating expenses. Because of Amazon's use of wholesalers to stock most of its inventory, Amazon benefited from a high inventory turnover rate which, when coupled with upfront customer payment and third-party commissions, allowed Amazon to sell and deliver products before it had even paid for them. For example, over the period 2002 to 2004, Amazon had an average working-capital-to-sales ratio of -7.9 percent.¹⁶ Other factors contributing to Amazon's success included the strength of the brand, lower prices, free shipping orders, breadth of selection, site features, ease of customer returns and third party listings.¹⁷

¹⁵ Hammond, Janice. "Amazon.com's European Distribution Strategy." Harvard Business School, June 30, 2005, pages 9-11 and Exhibit 9.

¹⁶ See Table A-2, line 237, in Appendix A of this report.

¹⁷ Hammond, op. cit., page 16.

Although Amazon held a dominant market position in 2004, the industry in which Amazon competed was constantly evolving and was very competitive. Online retailing became increasingly competitive in the late 1990s, particularly as established and well-known offline wholesalers, such as Best Buy and Dell, entered the online market.¹⁸ By 2004, the Amazon businesses in North America and in Europe faced competition from worldwide e-commerce sites such as eBay, traditional retailers with online sites such as Barnes and Noble and FNAC, and other indirect competitors such as comparison-shopping websites and internet search engines. As a result, Amazon experienced significant price competition and had to compete for its loyal customer base and brand recognition.

B. History of Amazon's EU Website Business

Amazon was able to penetrate the German and UK markets early on through the acquisition of leading online book retailers. By acquiring existing companies, Amazon partially avoided the time-consuming tasks of establishing relationships and building databases, allowing it to focus on expanding product selection and improving its supply-chain and distribution systems. Specifically, in April 1998, Amazon acquired Telebuch.de in Germany and Bookpages.co.uk in the UK and re-launched both sites in October 1998 under the Amazon brands. During 1999, the first full year of operations, the combined sales of Amazon.co.uk and Amazon.de were approximately \$167.7 million and accounted for approximately 10 percent of total Amazon revenues.¹⁹

Upon experiencing rapid growth in sales in the German and UK markets, Amazon continued to expand in the European Union ("EU") by entering the French

¹⁸ Friedland, Jim, "Amazon.com," *SG Cowen & Co.* January 4, 2005. pages 15-16.

¹⁹ Hammond, op. cit., pages 7-8.

market in September 2000. However, unlike for Germany and the UK, Amazon built its French site from scratch, requiring the establishment of distributor accounts and warehouses. Although the www.amazon.fr website faced strong European competition from FNAC, Bertelsmann and the European branch of Barnes and Noble, its creation helped Amazon to establish itself firmly in the international market.

Amazon's sales in the EU grew rapidly. By 2004, Amazon's EU sales were \$2.3 billion and accounted for one third of Amazon's worldwide revenues.²⁰ Amazon's EU operations included approximately four thousand employees in the UK, France and Germany in 2004.²¹ These employees worked in sales offices in the major cities in these countries and in strategically located distribution centers.²²

In 2004, the European online retail industry as a whole was forecasted to grow at an increasingly fast pace, with a continuing focus on media-related products. As of the end of 2004, online retail sales within the largest Western European nations were forecasted to grow at an annual rate of 11 percent.²³ Chart 1 displays the Amazon EU Website Business's actual sales through 2004, together with Amazon's own forecasts of its European sales for 2005 through 2011.²⁴

²⁰ IDR I-43.

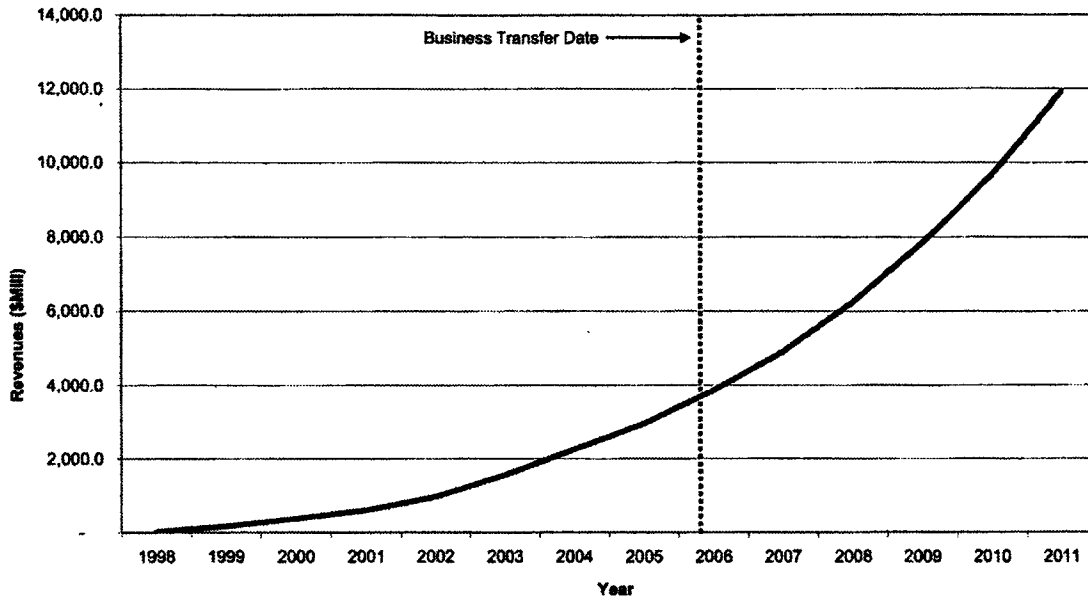
²¹ Figures taken from data included in excel spreadsheet provided by Amazon in response to IDR E-13.

²² Hammond, op. cit., pages 9-11 and Exhibit 9.

²³ Deloitte Report, Appendix 4, page 1.

²⁴ Sales figures from Table 1 used for Chart 1.

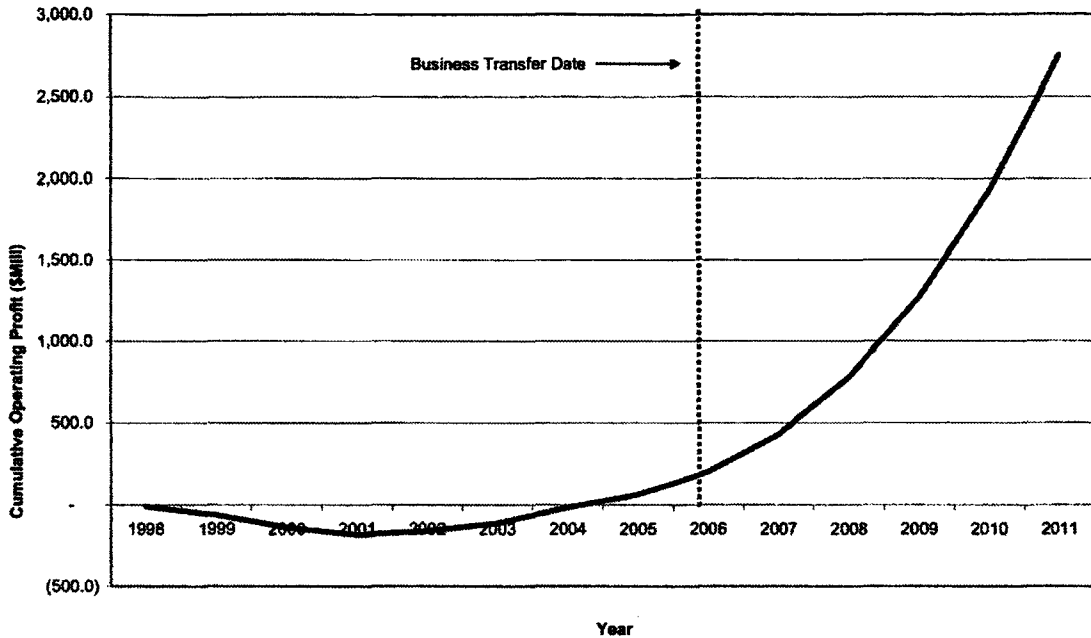
Chart 1
EU Website Business
Historical and Projected Revenues



In view of the large size and rapid growth of sales, it is clear that the Amazon EU Website Business was a successful operation by 2004. This success is reflected in the pattern of profits over time. Like many start-up situations, the Amazon EU Website Business recorded losses initially, then began to make profits. By 2004, Amazon's EU Website Business earned profits of \$96.9 million. Further, Amazon forecasted significant growth in profits after 2004. Chart 2 below shows the cumulative operating profits of the EU Website Business for the years 1998 to 2011.²⁵

²⁵ 1998 to 2004 are actual data as provided in response to IDR I-43. 2005 to 2011 are forecasted data as provided in Figure 7 from the Deloitte Report. Operating profits are net of IDC payments. IDC payments for 1998-2004 assumed to be 2.9% of revenues, which is equal to the ratio of IDC payments to projected revenues in 2005.

**Chart 2
Historical and Projected EU Website Business
Cumulative Operating Profit**



C. Amazon Entities Before and After Restructuring

During 2004-2006, Amazon restructured the ownership, operation and management of its EU Website Business. The restructuring process was completed on the Business Transfer Date, April 30, 2006. To describe this process, I briefly describe the organizational structure of Amazon's legal entities involved in operating the EU Website Business before and after the restructuring. I then briefly describe the inter-company agreements that effectuated the restructuring.

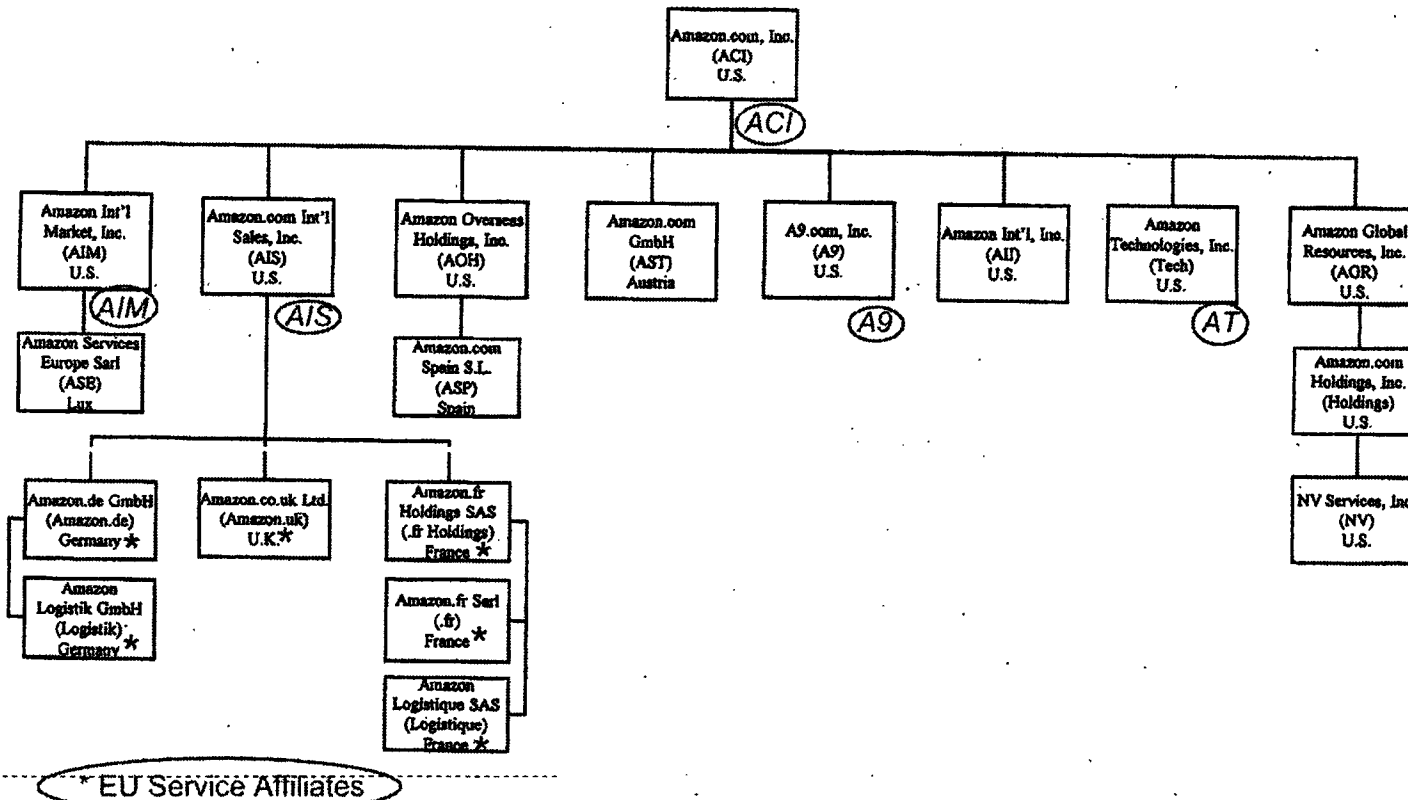
1. Amazon Entities Prior to Restructuring

The organizational structure of Amazon's EU operations before the reorganization is depicted in Chart 3.²⁶ Existing entities prior to the reorganization that are relevant to this report include:

- **AT and A9:** AT and A9 are wholly-owned US subsidiaries of ACI. They hold Amazon's worldwide intellectual property rights.
- **AIS:** AIS was a wholly-owned US subsidiary of ACI. It operated the EU Website Retail Business. AIS sold retail products to English, German, and French speaking customers through the www.amazon.co.uk, www.amazon.de and www.amazon.fr websites.
- **AIM:** AIM was a wholly-owned US subsidiary of ACI. AIM operated the EU Website Services Business. This function involved offering the third-party merchant platform services within Europe.
- **EU service affiliates:** The EU service affiliates were six wholly-owned UK, German and French subsidiaries of AIS. The six entities are indicated in Chart 3. These subsidiaries provided customer service, marketing, and fulfillment functions for the benefit of AIS and AIM in their respective countries. They were compensated by AIS and AIM at various cost-plus markups.

²⁶ Charts 3 and 4 are taken from Amazon's response to IDR I-15. I have added the acronyms that I use throughout this report next to the relevant entities; these acronyms are circled and shown in red.

Existing Legal Entity Structure – 1/1/2004



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Source: Amazon Response to IDR I-15



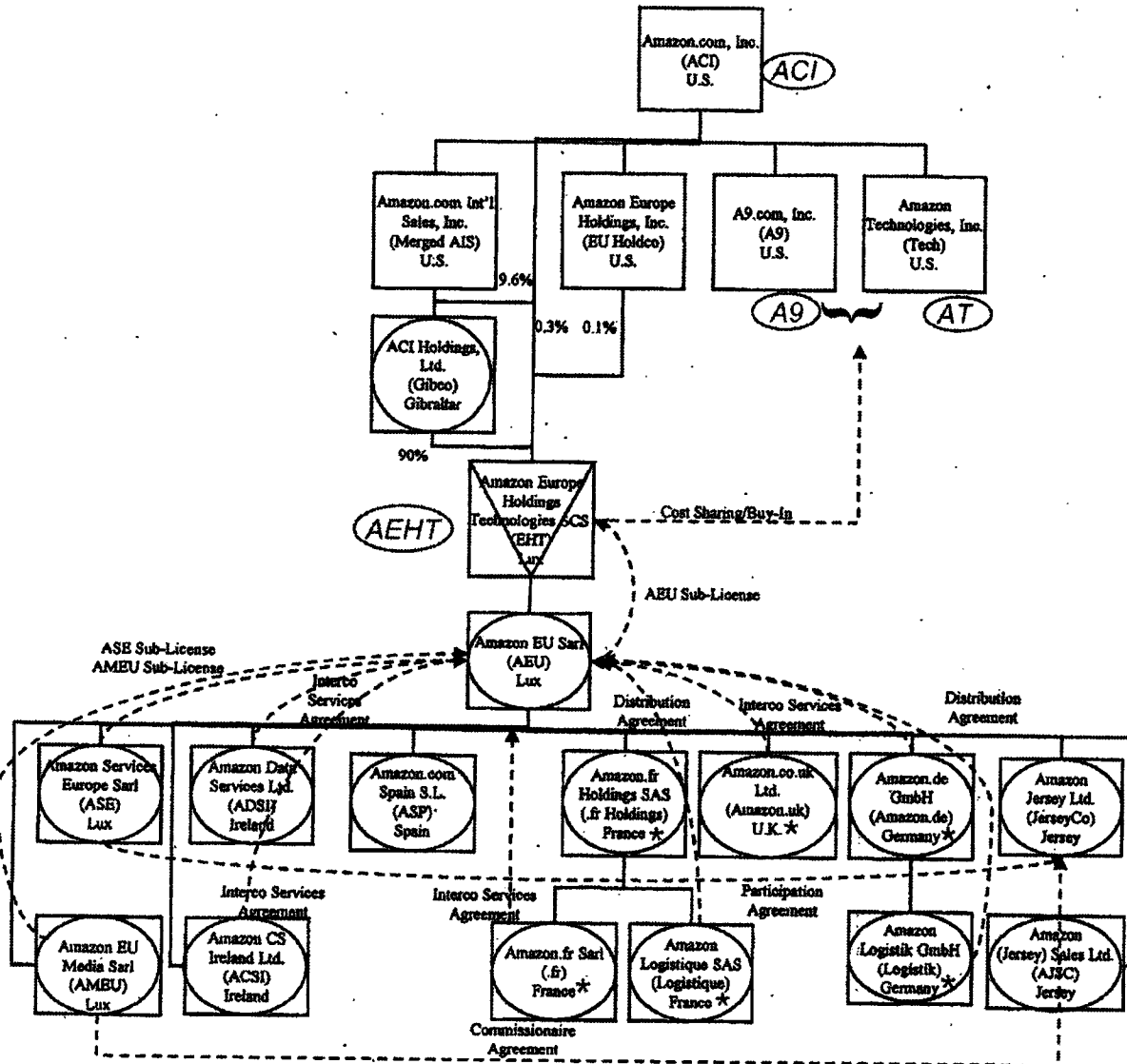
2. Amazon European Entities After Restructuring

During 2004 and 2005, Amazon created a series of new entities in Luxembourg to operate the EU Website Business. The new structure is depicted in Chart 4:

The restructuring involved the addition of the following entities:

- **Amazon EU (AEU):** AEU became the principal operating entity of the EU Website Business. It owns the data centers that support the operation of the EU websites; these data centers were moved to Europe as part of the reorganization.
- **LuxOps:** A number of entities besides AEU were organized in Luxembourg. They are shown in Chart 4. They operate the EU websites, hold inventories and assume credit risks. They hire the EU service affiliates to perform the same services in the UK, Germany and France, on the same cost-plus basis, as these EU service affiliates had been performing for AIS and AIM.
- **Amazon Europe Holding Technologies (AEHT):** AEHT is a Luxembourg entity. As is shown in Chart 4, it is the parent of AEU and, ultimately, of the LuxOps entities. Under US "check the box" rules, AEU and the LuxOps entities are regarded as branches of AEHT for US income tax purposes. For this reason, I generally refer to the combined operations of AEU, LuxOps and AEHT as AEHT in the remainder of this report.

Final Goldcrest Structure with Intercompany Agreements



- Agreements in Existence:**
- Buy-In I and II, and Amended Cost Sharing agreements between EHT, A9 and Tech.
 - Sub-license agreement between EHT and AEU.
 - Sub-license agreement between AEU and ASE.
 - Sub-license agreement between AEU and AMEU.
 - Commissionaire agreement between AMEU and JerseyCo.
 - Participation agreement between ASE and JerseyCo.
 - Intercompany services agreements between AEU with .co.uk, Amazon.de, Logistik, .fr, ACSI and ADSI, respectively.
 - Intercompany distribution agreements between AEU with Logistik and Logistique, respectively.

- Agreements Modified:**
- Short form cost sharing between A9 and EHT.



Source: Amazon, Response to IDR I-15

*EU Service Affiliates

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D. Intercompany Agreements

Amazon executed three agreements effective on January 1, 2005 in order to effectuate the restructuring. Prior to reorganization, AIS and AIM jointly operated the EU Website Business. To do so, they used valuable technology and other IP which were owned by AT and A9 and licensed to AIS and AIM. A principal objective of the restructuring was to have AEHT operate the EU Website Business starting on the Business Transfer Date. Therefore, it was necessary for the technology and IP owned by AT and A9 and licensed to AIS and AIM to instead be licensed to AEHT. The parties created two agreements, the License Agreement and the Assignment Agreement, to do so.

Another objective of the restructuring was to establish a Qualified Cost Sharing Arrangement for sharing Amazon's intangible development costs during and after the restructuring.²⁷ Accordingly, the parties signed the Cost Sharing Agreement. Each of these agreements is discussed below, starting with the Cost Sharing Agreement.

1. Cost Sharing Agreement

As stated above, effective January 1, 2005, AT and A9, together with AEHT, entered into the Cost Sharing Agreement. Pursuant to the agreement, AEHT made quarterly cost sharing payments to A9 and AT to assist in the ongoing development of the intangible property to be used by ACI and its affiliates.

²⁷ Recitals to Cost Sharing Agreement, page 1.

Amazon intended the Cost Sharing Agreement to meet the requirements of a "qualified cost-sharing arrangement" ("QCSA") under the section 482 regulations.²⁸

These requirements are discussed in the next section of this report.

2. License Agreement

At the same time, AEHT and AT entered into two agreements to transfer the intellectual property needed to operate the EU Website Business from AT to AEHT. The License Agreement made available some but not all of this IP. Specifically, it transferred "Amazon Intellectual Property" which it defined in paragraph 1.2, as:

'Amazon Intellectual Property' means (a) any and all intellectual property rights throughout the world, owned or otherwise held by Amazon Technologies proper to the Effective Date whether existing under intellectual property, unfair competition or trade secret laws, or under statute or at common law or equity, including but not limited to: (i) copyrights (including but not limited to reviews and editorial content), trade secrets, trademarks, patents, inventions, designs, trade dress, "moral rights," mask works, rights of personality, publicity or privacy, rights in associate or vendor information, rights in customer information (including but not limited to customer lists and customer data) and any other intellectual property an proprietary rights (including but not limited to rights in databases, marketing strategies and marketing surveys);...but (d) excluding all Excluded Intellectual Property.

Paragraph 1.5 defines this last term:

'Excluded Intellectual Property' means copyrights on the content (but not the underlying code) associated with the web site operated from the URL <http://www.amazon.co.uk> (including, for the avoidance of doubt, any syndicated stores such as www.amazon.co.uk/waterstones), <http://www.amazon.de>, or <http://www.amazon.fr>, trademarks and trade dress for any European Country, Customer Information, and domain name registrations for any European Country.

²⁸ The Cost Sharing Agreement states that it "...is intended to be a 'qualified cost sharing agreement' as defined by Treasure Regulation §1.482-7;"

In short, the License Agreement transferred a very broad bundle of IP to AEHT, except for a narrowly defined set of IP that was explicitly excluded.

3. Assignment Agreement

The Assignment Agreement, which was effective on the same day as the License Agreement, basically transferred to AEHT the IP that was explicitly excluded in the License Agreement. Specifically, the IP to be transferred by the Assignment Agreement is described in Exhibit B, which contains a long list of domain registrations for URLs pertaining to European markets. It also specifies that all customer information for each person or entity having an account with any of these web sites shall be transferred to AEHT. Exhibit B also contains a long list of trademarks registered in Europe.

The Assignment Agreement does not transfer this collection of IP on the effective date of the Agreement, which is January 1, 2005. Instead, it specifies that the IP is to be transferred on the Business Transfer Date. In paragraph 1.3 of the Agreement, this date is defined as "...the date to be mutually agreed upon by the parties, expected to occur during 2006, upon which the Luxembourg Operating Group commences operation of the EU Website business." The parties eventually set this date as April 30, 2006.

Together, the License Agreement and the Assignment Agreement transferred a very broad bundle of IP to AEHT. This bundle of IP was intended to, and did, allow AEHT to operate the EU Website Business. The date or dates on which this bundle of IP was transferred is somewhat complex. However, it is clear that all of the IP that AEHT needed was transferred to it on or before the date that AEHT needed it.

E. IP Transferred to AEHT

Since the main objective of this report is to provide an economic analysis of the IP that was transferred to AEHT, it is useful to discuss my understanding of the IP. The basic fact is that before the restructuring, AIS and AIM operated the EU Website Business; after the restructuring, AEHT operated it. Further, AEHT was created in mid-2004 during the restructuring; therefore, it obviously did not possess any of its own IP before the restructuring. Thus, it is clear that the IP transferred in the restructuring consisted of all the IP necessary for AEHT to operate the EU Website Business.

A principal example of the transferred IP is the set of domain names for the EU websites. It would have been extremely difficult for AEHT to operate the EU Website Business without being allowed to use the www.amazon.co.uk, www.amazon.de and www.amazon.fr domain names. By 2004, there was a large and growing base of customers in the EU who were accustomed to ordering products from Amazon. What this meant in practical terms is that, when they wanted to make a purchase using the internet, they were accustomed to steering their web browsers to one of these domain names. Therefore, any company allowed to use these domain names would have an immediate base of customers and would immediately be able to make a high volume of sales. Conversely, if AEHT tried to operate the EU Website Business without being allowed to use these domain names, AEHT would have had to register different domain names and then conduct an extensive marketing campaign to try to convince consumers to use them instead of the ones they were used to. Not only would this campaign likely have been expensive, there would have been considerable risk that it would have been unsuccessful. For example, as discussed above, Amazon had

competitors, but none of them were able to establish their websites as successfully as did Amazon.

Once the customers were on AEHT's websites, AEHT needed additional aspects of the IP in order to operate the EU Website Business successfully. The customers were accustomed to seeing Amazon trademarks on the websites, as well as on their packages when delivered, and would have been confused if they did not see them on the websites and packages after the restructuring. Thus, AEHT needed the ability to display these trademarks.

As discussed above, another important aspect of the success of Amazon's websites is that they worked well. Customers were able to find the products they wanted, order them successfully with a minimum of frustration, have confidence that they could enter their credit card or bank account information without later discovering incorrect or unauthorized charges, and have their products shipped to them accurately and promptly. These functions were aided by the software and fulfillment systems that Amazon had developed and was using at the time of the restructuring. AEHT's ability to take over this bundle of software and systems was therefore a major benefit.

In short, as the result of the restructuring, AEHT took over the operation of a successful business. The continued success of this business depended on a bundle of IP that included the domain names, trademarks, website software, and fulfillment systems. If AEHT had not been allowed to use this bundle of IP, it would have been extremely difficult for it to operate the EU Website Business successfully; with this bundle of IP, AEHT could do so. For this reason, in my view the IP transferred by the

restructuring should be analyzed as a bundle, and in the context of the transfer of a business.

This sort of transfer may be contrasted with the transfer of a discrete item of IP such as the formula for a pharmaceutical product or the schematic of a computer chip or a stand-alone software program. A drug is valued for its ability to cure a disease or alleviate pain or have some other beneficial effect on a patient. A computer chip or software program is valued for the technologically advanced functions it can perform. These benefits are more free-standing and objective than the benefits enjoyed by a consumer who shops on Amazon. As a consequence, it is often easier to analyze the value of a drug patent or a computer chip design or software program on a free-standing basis, rather than as part of a business. For example, there may be arm's length licenses for similar drug patents or software programs; if so, it may be possible to base a transfer pricing analysis on the arm's length royalty rates.

Further, consider the question of useful life. Because a drug or computer chip or software program is valued for the advanced functions it can perform, it will become much less valuable when something even more advanced comes along. Therefore, such products tend to have a definite useful life. That is, there comes a time when no one wishes to buy the product because it is possible to buy an even more powerful one. For example, even if it were possible to do so very cheaply, very few people would wish to buy a 1990's-era personal computer or word-processing program, since current versions of these products are so much more capable.^{29 30}

²⁹ Drugs tend to have a definite economic useful life for an additional reason. Because drugs can generally be copied relatively easily once their patent protection expires, they lose their monopoly advantage when this happens. Then, even if the drug is still valued for its functions, it can lose much of its economic value because its monopoly price can disappear.

In contrast, much of the IP associated with the EU Website Business may be useful for a long time. Consumers do business with Amazon in order to buy specific books, music CDs, etc. However, even though the useful life of a specific book or music CD may be short, consumers may well continue to value the fact that shopping on Amazon is easy, reliable and "hassle-free". If so, the domain names, trademarks and other elements of the IP associated with the business will continue to generate high volumes of sales, possibly for a long time. Unlike an item of IP valued for its leading-edge technology, which is likely to be replaced by a subsequent technological development, it is not possible to predict when the IP associated with Amazon's business will cease to generate sales. Therefore, the IP associated with the EU Website Business should be regarded as having an indefinite useful life.

Of course, the IP associated with the EU Website Business may not be useful forever. Some other internet retailer may find a superior way of doing business. Or, just as internet retailing supplanted a portion of traditional "bricks and mortar" retailing, there may be a whole new form of retailing in the future which will affect Amazon's business model.³¹ Thus, as one tries to look further out into the future, one should regard the value of the IP as increasingly uncertain. This increasing uncertainty should be taken into account in the analysis. However, it is not sensible to do so by pretending

³⁰ Note that I am not taking a position on the correct methods to use to perform a valuation in a situation involving any specific company involved in drugs, computer chips, software products, or any other product. Nor am I taking a position on whether or not IP value besides the rights to make and sell certain existing products was transferred in any situation not involving Amazon.

³¹ For example, in recent years, sales of music CDs have been heavily affected by the rise of Apple Inc.'s iPod / iTunes system and retailers dependent on music CDs such as Tower Records have disappeared. Books, too, have seen the rise of a new form of retailing recently but, in this case, Amazon seems to be retaining its market share through the introduction of its Kindle product. Whether other aspects of Amazon's business will be affected by similar developments, and if so when, is unknown.

that the IP associated with the EU Website Business has a definite useful life equal to a certain number of years.

In sum, the objective of this report is to analyze the IP transferred to AEHT in the context of the restructuring. This IP included the European domain names, trademarks, website software, fulfillment systems, and all other elements of the bundle of IP necessary to operate the EU Website Business. The next section of this report discusses the requirements of the US tax regulations in connection with the transfer of this IP.

III. Arm's Length Standard and Transfer Pricing Methods

As described above, Amazon transferred IP to AEHT as part of the restructuring. The regulations under section 482 of the Internal Revenue Code require that AEHT pay an appropriate amount for the IP to AT, the owner. The appropriate amount is the amount that an independent party operating at arm's length would have paid. The section 482 regulations and the arm's length standard are discussed below.

A. Section 482 Regulations and Arm's Length Standard

Section 482 is intended to place a controlled taxpayer on a tax parity with an uncontrolled taxpayer to ensure that the controlled taxpayer clearly reflects income attributable to intercompany transactions and to prevent tax avoidance with respect to these transactions.³² In order to meet these objectives, the section 482 regulations require that controlled transactions produce results that are consistent with the results

³² Treas. Reg. §1.482-1(a)(1).

that would have been realized if uncontrolled taxpayers had engaged in the same transactions under the same circumstances. This is the arm's length standard.³³

B. Cost-Sharing Arrangements and Transfers of IP

According to the section 482 regulations, a QCSA is "an agreement under which the parties agree to share the costs of development of one or more intangibles in proportion to their shares of reasonably anticipated benefits from their individual exploitation of the interests in the intangibles assigned to them under the arrangement."³⁴ The costs related to the development of intangibles to be shared under a cost sharing agreement are defined by the regulations as intangible development costs ("IDCs").³⁵ The regulations require that these costs be shared between the related parties on the basis of the reasonably anticipated benefits to be derived from the exploitation of the covered intangibles.³⁶

The regulations note that "[i]f a controlled participant makes pre-existing intangible property in which it owns an interest available to other controlled participants for purposes of research in the intangible development area under a qualified cost sharing arrangement, then each such other controlled participant must make a buy-in payment to the owner."³⁷ This section further states that a buy-in payment equals the arm's length charge for the use of the intangibles, as determined under sections 1.482-1 and 1.482-4 through -6 of the regulations, multiplied by the controlled participant's share of the reasonably anticipated benefits derived from the use of the covered intangibles.

³³ Treas. Reg. §1.482-1(b)(1).

³⁴ Treas. Reg. §1.482-7(a)(1).

³⁵ Treas. Reg. §1.482-7(d)(1).

³⁶ Treas. Reg. §1.482-7(e)(2).

³⁷ Treas. Reg. §1.482-7(g)(2).

A buy-in payment can be made in the form of a lump sum, installment payments, or royalties or other payments contingent on the use of the intangible.³⁸

C. Transfer Pricing Methods for Intangible Property

Thus, AEHT was required to make a payment or payments to AT for the IP transferred as part of the restructuring, and to apply the intangible pricing methods of the regulations articulated in sections 1.482-4 through -6 of the regulations to determine the payment or payments. The methods are:

1. Comparable uncontrolled transaction ("CUT") method,
2. Comparable profits method ("CPM"),
3. Profit split methods, and
4. Unspecified methods.

1. Comparable Uncontrolled Transaction Method

The CUT method evaluates whether the amount charged for a controlled transfer of intangible property is arm's length by reference to the amount charged in a comparable uncontrolled transaction.³⁹ If an uncontrolled transaction involves the same intangible under the same or substantially similar conditions as the controlled transaction, the results derived from the CUT method will generally be the most direct and reliable measure of an arm's length results for the controlled transfer of an intangible.⁴⁰ Circumstances between the controlled and uncontrolled transactions will be considered substantially the same under the regulations if there are at most only minor differences that have a definite and reasonably ascertainable effect on the amount charged in the relevant transaction and for which appropriate adjustments are

³⁸ Treas. Reg. §1.482-7(g)(7)(i)-(iii).

³⁹ Treas. Reg. §1.482-4(c)(1).

⁴⁰ Treas. Reg. §1.482-4(c)(2)(ii).

made.⁴¹ Intangible property will be considered comparable if it is used in connection with similar products and processes within the same general industry or market, and if it has a profit potential similar to the intangible property involved in the controlled transaction.⁴² Profit potential is most reliably measured by the net present value of the benefits to be realized, the risks assumed, and other relevant considerations.⁴³

Whether circumstances will be considered comparable requires an evaluation of all relevant factors, including the following.⁴⁴

- (1) terms of the transfer, including exploitation rights, exclusivity of rights, restrictions on use, and limitations on the geographic area of exploitation;
- (2) stage of development of the intangible (including, where relevant, government approvals) in the market in which the intangible is used;
- (3) rights to receive updates, revisions or modifications;
- (4) uniqueness of the property and the period for which it remains unique (including the degree of legal protection);
- (5) the duration of the license, including any termination or renegotiation rights;
- (6) economic and product liability risks assumed by the licensee;
- (7) existence of collateral transactions or ongoing business relationships between the transferor and transferee; and
- (8) functions performed by the transferor and transferee, including ancillary or subsidiary services.

2. Comparable Profits Method

The comparable profits method evaluates whether the amount charged in a controlled transaction is arm's length based on profit level indicators derived from uncontrolled taxpayers that engage in similar business activities under similar circumstances.⁴⁵ Under this method, the determination of an arm's length result is

⁴¹ Ibid.

⁴² Treas. Reg. §1.482-4(c)(2)(iii)(B)(1)(i)-(ii).

⁴³ Ibid.

⁴⁴ Treas. Reg. §1.482-4(c)(2)(ii).

⁴⁵ Treas. Reg. §1.482-5(a).

based on the amount of operating profit that a participant in a controlled transaction (the "tested party") would have earned on related party transactions if its profit level indicator were equal to that of an uncontrolled comparable.⁴⁶ Profit level indicators that may provide a reliable basis for analysis under the comparable profits method include the ratio of operating profit to operating assets, the ratio of operating profit to sales, the ratio of gross profit to operating expenses, and other indicators not specified in the regulations.⁴⁷ Comparability is determined according to the provisions of Treas. Reg. §1.482-1(d)(2).⁴⁸ Specific considerations in this regard include comparability in terms of line of business, product or service market involved, asset composition employed, size and scope of operations, and the stage in a business or product cycle.⁴⁹

3. Profit Split Methods

The profit split method, which comprises two allocation methods, the "comparable profit split" and the "residual profit split", evaluates whether the allocation of combined operating profit or loss attributable to one or more controlled transactions is arm's length by reference to the relative value of each controlled taxpayer's contributions to that combined operating profit or loss.⁵⁰ The allocation derived from the use of the profit split method is intended to correspond to the division of profit or loss that would result from an arrangement between uncontrolled taxpayers performing functions similar to those of the various controlled taxpayers engaged in the relevant

⁴⁶ Treas. Reg. §1.482-5(b).

⁴⁷ Treas. Reg. §1.482-5(b)(4).

⁴⁸ Ibid.

⁴⁹ Treas. Reg. §1.482-5(c).

⁵⁰ Treas. Reg. §1.482-6(a),(c).

business activity.⁵¹ The allocation of profit or loss must be made under one of two methods described in the regulations—the comparable profit split or the residual profit split.⁵²

The comparable profit split method applies the profit split observed in comparable unrelated-party situations, if any such situations can be found. The residual profit split method is typically applied when both parties to a controlled transaction contribute valuable intangible property to the business activity. In cases where there is intangible property present, there will normally be an amount of residual profit after a deduction of returns on each party's "routine contributions" to the business activity. This residual profit is allocated to the parties' intangible property based on estimated relative value. Treas. Reg. §1.482-6(c)(3)(i)(B) provides that the relative value of intangible property contributed by each taxpayer may be measured based on 1) external benchmarks that reflect the fair market value of such intangibles, 2) the capitalized cost of developing the intangibles, or 3) if the intangible development expenditures are relatively constant over time and the useful life of the intangible property is approximately the same, the amount of actual intangible development expenditures in recent years.

4. Unspecified Methods

The regulations also permit the application of unspecified methods to evaluate whether the amount charged in a controlled transaction is arm's length.⁵³ Unspecified

⁵¹ Treas. Reg. §1.482-6(b).

⁵² Treas. Reg. §1.482-6(c).

⁵³ Treas. Reg. §1.482-4(d)(1).

methods must be applied in accordance with the provisions of Treas. Reg. §1.482-1.⁵⁴ The application of an unspecified method is guided by the notion that, "consistent with the specified methods, an unspecified method should take into account the general principle that uncontrolled taxpayers evaluate the terms of a transaction by considering the realistic alternatives to that transaction, and only enter into a particular transaction if none of the alternatives is preferable to it."⁵⁵

D. Summary

Under the License and Assignment Agreements, Amazon transferred IP to AEHT so that AEHT could operate the EU Website Business and participate in a QCSA. The regulations under section 482 require that AEHT pay an arm's length amount for the IP and prescribe methods for determining this amount. The remainder of this report discusses whether the analysis presented in the Deloitte Report satisfies this requirement and, if not, how this requirement may best be met.

IV. Summary and Critique of Deloitte Report

The Deloitte Report calculated the amounts that AEHT should pay for the transfer of IP under the License and Assignment Agreements.⁵⁶ There are several reasons why I believe the analysis presented in the Deloitte Report does not produce an arm's length result. To help structure my critique, I first review Deloitte's analysis in a stepwise fashion. I then provide my critique of each of these steps.

⁵⁴ Ibid.

⁵⁵ Treas. Reg. §1.482-4(d)(1).

⁵⁶ The Deloitte Report uses the term "PCT payments" for the amounts that AEHT should pay in return for the transferred IP. This term is from the August 22, 2005 proposed regulations for cost-sharing; it is defined in Prop Treas. Reg. Sec 1.482-7(b)(3)(iii). The preamble to these proposed regulations state that "PCT" stands for "Preliminary or Contemporaneous Transactions."

A. Summary of Deloitte Report

The steps Deloitte took to apply its method are as follows:⁵⁷

Step 1: Choice of Best Method

The Deloitte Report states,

Upon review of the specified methods available for testing the arm's length nature of the PCT Payments, it was determined that an unspecified income-based method was the most reliable testing method.

This is the Deloitte Report's only discussion of alternative methods or why it selected the method it did.

Step 2: Identify IP Transferred to AEHT

The next step in Deloitte's analysis was to identify the IP transferred to AEHT under the restructuring. This included all IP related to the EU Website Business. As Deloitte wrote,

[AT]'s Pre-Existing IP and Assigned IP consist of various intellectual properties that [ACI] has developed over time. All Pre-Existing IP and Assigned IP currently utilized in the EU Website Business have been made available to [AEHT] under the terms of the License, Assignment and or the QCSA.⁵⁸

More specifically, the IP included integrated software that encompasses website management, search, customer interaction, recommendation, transaction-processing, and fulfillment services. As Deloitte wrote,

[s]oftware has been developed that management considers unique to Amazon's business, especially those technologies related to searching the

⁵⁷ The Deloitte Report describes its analysis as "a four-step approach" (see page 24). However, some of these steps are so complicated that, in the interests of clarity, I find it useful to decompose them.

⁵⁸ Deloitte Report, page 25

Amazon websites and the customer-specific tailoring of the websites with information gather from the customer's interactions.⁵⁹

This suggests that Amazon management placed considerable value on the uniqueness of the software in the operations of its business.

The IP also included marketing-related intangibles as well as other forms of intellectual property, including:

a number of trademarks, service marks, copyrights, patents, domain names, trade dress, trade secrets, proprietary technologies, and similar IP.⁶⁰

Step 3: Select IP Useful Life

The next step in Deloitte's analysis was to select a useful life for the IP. To estimate this useful life, Deloitte conducted interviews with Amazon personnel, performed a customer lifing analysis, and analyzed expected software life by reviewing the history of Microsoft's technical support provided for its various software products. These analyses indicated a useful life of three to five years. Ultimately, Deloitte selected a seven year useful life for its analysis.

Step 4: Compute Total IP-related Operating Profits

Deloitte then estimated profits attributable to the IP. Deloitte's starting point for this estimate was Amazon management projections for the EU Website Business' operating profits from 2005 through 2011.⁶¹ Deloitte removed AEHT's "readily identifiable returns" from these projected operating profits to calculate the IP-related operating profits. Deloitte estimated AEHT's readily identifiable returns as equal to a 4.5 percent markup on costs based on a net cost plus markup ("NCPM") analysis. For its

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ These projections excluded the EU Services affiliates.

NCPM analysis, Deloitte selected a set of independent management consulting companies as comparables to AEHT's operations. A 4.5% markup on costs fell within the range of results for these comparables.

Step 5: Split IP Between Licensed IP and Assigned IP

Deloitte split the estimated IP related operating profits computed in Step 4 between two components: 1) Licensed IP under the License Agreement ("Licensed IP") and 2) Assigned IP under the Assignment Agreement ("Assigned IP"). Deloitte deemed this step was necessary to adjust for the fact that the Licensed IP was transferred as of January 1, 2005, but the Assigned IP wasn't transferred to AEHT until the Business Transfer Date, April 30, 2006.

The rationale Deloitte used for making this adjustment was that AIS and AIM, as operators of the European Website Business, would continue to earn the IP profits related to the Assigned IP between the January 1, 2005 and the Business Transfer Date. In fact, AIS and AIM earned all of the profits from the EU Website Business during this period, including the profits attributable to the Licensed IP as well as the Assigned IP. Nonetheless, Deloitte decided that an adjustment was necessary with regard to the Assigned IP only.

Deloitte used an Amazon agreement with Waterstones, an unrelated UK bookseller, to estimate the value of the Assigned IP. Deloitte estimated this amount to be \$182 million. The \$182 million was then converted into an annual \$41.2 million amount for each of the seven years over which PCT payments were to be made by

AEHT.⁶² The \$41.2 million value was then subtracted from the IP-related operating profits to compute Licensed IP-related profits.

Step 6: Allocate Portion of Licensed IP to Pre-Existing IP

On pages 35-38, Deloitte allocated a portion of remaining IP profits to the pre-existing IP. Deloitte justified this approach by that asserting that,

[b]ecause the PCT Payments relate to only Pre-Existing IP and the Assigned IP, it is necessary to allocate the intangibles profit based on the relative contribution of the Pre-Existing IP and the Assigned IP and Cost-Shared IP that will be created subsequently.⁶³

Thus, by separating out profits due to "readily identifiable returns," Deloitte attributed some of the forecasted profits to IP. Because these IP-related profits happen in the future, Deloitte took the position that some of these profits must be attributable to IP that is developed in the future. This is so even though all of the IP profits in Deloitte's model are forecasted to come from the EU Website Business; none of them are forecasted to come from new business ventures unrelated to the EU Website Business. Thus, all of the IP profits in Deloitte's model are forecasted to come from the business that was transferred to AEHT as the result of the restructuring.

Deloitte calculated the portion of IP profits allocable to pre-existing IP as follows. First, Deloitte computed the ratios of IDCs that took place before the Business Transfer Date to total IDCs as of each PCT payment date. Then Deloitte applied these ratios to the profits determined in Step 5 to be related to the Licensed IP. Deloitte estimated the IDC amounts using historical and projected costs related to IP development activities. These costs were "accumulated" and "adjusted for the decline, or amortization of the

⁶² Deloitte used a 13% estimate of Amazon's cost of capital for the conversion.

⁶³ Deloitte Report, page 35.

benefits associated with those activities.⁶⁴ Deloitte included historical costs back to 1999 and projected costs through 2011 in its analysis. These costs were adjusted to 2005 dollars assuming a 5% inflation rate.⁶⁵

Deloitte assumed the amortization of these accumulated costs followed a Weibull distribution with a seven year useful life.⁶⁶ The resulting amounts from this step were equal to the value of the pre-existing Licensed IP which was to be paid by AEHT to AT ("License PCT Payments").

Step 7: Allocate Portion of Assigned IP to Pre-Existing IP

Deloitte allocated a portion of Assigned IP from Step 5 to pre-existing IP in the same manner as for Licensed IP in Step 6. However, for 2005, Deloitte decided that AEHT was not required to make a PCT payment for the Assigned IP because, as described above, AIS and AIM, as operators of the EU Website Business during 2005, earned the operating profit associated with the Assigned IP.⁶⁷ The resulting amounts from this step formed the value of the pre-existing Assigned IP which was to be paid by AEHT to AT ("Assignment PCT Payments").

Step 8: Result

The PCT payments to be made by AEHT to AT were equal to the sum of the License PCT Payments from Step 6 and the Assignment PCT Payments from Step 7:

⁶⁴ Ibid.

⁶⁵ The measurement of the IDC amounts was not discussed in the main text of the Deloitte report, but the IDC amounts were presented in Appendix 8.

⁶⁶ In addition to a useful life assumption, Weibull distributions depend on the values of an alpha and beta parameter which help to define the shape of the distribution. Deloitte assumed the alpha parameter was equal to 2.7 and the beta parameter to be 2.0. No explanation was given for why these values were chosen.

⁶⁷ As noted above, AIS and AIM earned the operating profits associated with the Licensed IP during 2005 as well.

Figure 1
Intercompany PCT Payments
(\$ millions)

<u>Year</u>	<u>License PCT Payments</u>	<u>Assignment PCT Payments</u>	<u>Total</u>
2005	73.220	0.000	73.220
2006	66.170	16.514	82.684
2007	47.330	7.619	54.949
2008	25.460	2.803	28.263
2009	10.220	0.818	11.038
2010	3.090	0.187	3.277
2011	<u>1.030</u>	<u>0.050</u>	<u>1.080</u>
Total	226.520	27.991	254.511

The PCT payments to be made across the seven year period in total were equal to \$254.5 million. In Appendix 9 of the Deloitte Report, Deloitte estimated the present value of these payments to be \$216.7 million as of December 31, 2004.⁶⁸

B. Critique of Deloitte Report

I have several issues with the analysis in the Deloitte Report. I discuss each of these issues below.

Step 1: Choice of Best Method

The Deloitte Report does not discuss why it selected its "unspecified income-based method" as the best method to use. It does not discuss which of the specified methods were considered or why they were rejected. As I discuss below, Amazon's Merchants@ program provides some evidence of compensation paid by uncontrolled parties for the use of Amazon's IP; therefore, the CUT method should have been considered.

⁶⁸ In Appendix 9, the Deloitte Report notes that the calculation uses a "13% discount rate (WACC of Amazon.com), discounting from the middle of the year to the beginning of 2005."

Further, the Deloitte Report does not discuss why, given that an unspecified method should be used, the method it selected is a reliable one. For the reasons discussed below, I conclude that it is not.

Step 2: Identify IP Transferred to AEHT

As is quoted above, the Deloitte Report states that, "[a]ll ... IP currently utilized in the EU Website Businesses have been made available to [AEHT] under the terms of the License, Assignment and/or the QCSA."⁶⁹ Note that the QCSA concerns the development of future IP. Thus, at the time of the transfer of the EU Website Business, all IP that AEHT needed to take over the operation of this successful business was conveyed to AEHT by the License and Assignment Agreements. I agree that this is the IP for which AEHT must pay an arm's length amount.

Step 3: Select IP Useful Life

Deloitte assumed that the useful life for Amazon's IP was seven years. Deloitte supported this useful life with a "customer lifing analysis" and an "IP useful life analysis." These analyses were documented in Appendix 6 and Appendix 7 of the Deloitte report, respectively.

1. Customer Lifing Analysis

In Appendix 6 of the Deloitte report, Deloitte estimated an expected customer life of 2.84 years based on its review of Amazon European website customers' first and last order dates statistics from 1994 to 2004. No definition of a "customer" was provided in the Deloitte report. Therefore, I am uncertain about the quality of the data used in Deloitte's analysis. For instance, it is possible some of the new customers are actually repeat customers who created different user ID's. To the extent this flaw exists in the

⁶⁹ Deloitte Report, page 25.

data, Deloitte's analysis would be skewed and thereby would produce artificially short estimates of customer life.

In addition, order dates are not the proper basis for this analysis. Rather, it would have been more appropriate to use revenues as the basis for this type of analysis. Upon reviewing Deloitte's analysis, I noticed that a large number of Amazon's customers appear to be one-time shoppers whose first and last order dates were in the same year. Should these customers be given the same weight as a loyal customer who repeatedly shops at Amazon over multiple years and generates substantially more revenue for Amazon? Clearly the answer is no.

In other words, Deloitte's customer lifing analysis does not take into account what is most important to a company when it comes to its customers – the revenues customers generate. Therefore, I do not believe Deloitte's customer lifing analysis is a reliable basis for estimating the longevity of Amazon's marketing-related or any other intangibles conveyed to AEHT under the License and Assignment agreements.

2. IP Useful Life Analysis

The Deloitte Report states that Amazon's technology replace cycle is three to five years. Deloitte based this conclusion on conversations with Amazon's technology and business development personnel.⁷⁰ In Appendix 7 of the Deloitte report, Deloitte provided support for this technology cycle by reviewing Microsoft's product support to provide a "general feel for the useful life of Internet related technology which can then be referenced when examining the useful life of Amazon's technology."⁷¹ Deloitte found

⁷⁰ Deloitte Report, page 26.

⁷¹ Deloitte Report, Appendix 7, page 2.

- that the median length of time that Microsoft offers free support for its software products was five years from the time that each product first went on sale.

The length of time that Microsoft provides free product support is not a very good measure of the useful life of Amazon's IP for several reasons. First, there are obvious differences between Microsoft's products and the IP related to the operation of Amazon's EU Website Business. Second, the length of time that support is offered is not a valid measure of useful life even for Microsoft's products. The implicit assumption behind using this measure of useful life is that the software products have zero value once the free support period is over. However, if this were true, Microsoft would be willing to allow anyone to reproduce and sell one of its products for free after the five year support period is over. As far as I know, Microsoft has never permitted this to happen. The reason is that software products retain various kinds of value even after Microsoft has decided, as a marketing matter, to stop offering support. For these reasons, the length of the free support period is not a reliable way to estimate the useful life of software products, never mind for the IP transferred to AEHT in the context of the restructuring.

3. Proper Interpretation of Useful Life for Amazon's IP

More fundamentally, as discussed above, the objective of the restructuring was to allow AEHT to take over the operation of the EU Website Business. Thus, the IP transferred consisted of the IP involved in operating an ongoing business. The life of this sort of IP is quite different from the life of specific software products. Because a software product ceases to be sold when a more powerful product comes along and renders it obsolete, one can predict that a software product will no longer generate

revenues after a certain number of years. However, the IP associated with the operation of a successful business may be useful for an indeterminate amount of time. For example, in Amazon's case, the domain names and trademarks may be in use for a long time. Therefore, it does not make sense to assign them a relatively short useful life equal to a certain number of years. For example, it makes no sense to believe that, in 2004, Amazon's European domain names would cease to be useful after seven years.

For these reasons, a proper valuation of the IP transferred to AEHT should take into account the reality that the EU Website Business will continue to operate beyond seven years. Below, I discuss methods for doing so.

Step 4: Compute Total IP-Related Operating Profits

Deloitte's calculations are based on a forecast of the revenues and operating profits of the EU Website Business for 2005 through 2011. I understand that this forecast comes from Amazon. I have no reason to question the validity of this forecast. Therefore, I accept Deloitte's calculations with regard to the measurement of operating profits for the EU Website Business.

Step 5: Split Between Licensed IP and Assigned IP

Deloitte's calculations make a distinction between IP transferred under the License Agreement and IP transferred under the Assignment Agreement. In practice, this distinction has an effect because Deloitte's approach assumes that AEHT should begin paying for the Licensed IP as of January 1, 2005, while AEHT should begin paying for the Assigned IP as of the Business Transfer Date, April 30, 2006. I do not understand this distinction. Both Agreements have the same effective date, January 1, 2005. In reality, neither Agreement had any practical effect until AEHT began operating

the EU Website Business on April 30, 2006.⁷² That is, AEHT did not have any revenues or operating expenses until that date, so it clearly did not earn any income from either of the Agreements until that time. In short, in my opinion, there is no need to differentiate between the value of Licensed IP and Assigned IP, nor is there a logical basis for doing so.

Further, I do not find Deloitte's method for attempting to value these two types of IP separately to be convincing. First, there is no evidence that Deloitte considered third party arrangements other than the Waterstones arrangement. Other arrangements might have been more applicable to this type of analysis. Second, no justification was given for using 90 days of revenue for the customer referral commission portion of the analysis. Thus, the amortization of Assigned IP is unreasonably short.

Steps 6 and 7: Allocate Portion of IP to Pre-Existing IP

1. Allocation Lacks Valid Economic Rationale

Deloitte's next steps are to allocate the forecasted IP profits between Pre-Existing IP and IP attributable to IDC payments made and expected to be made by AEHT under the Cost Sharing Agreement ("Cost-Shared IP"). Deloitte does this step separately for IP profits attributable to the Licensed IP (step 6) and IP profits attributable to the Assigned IP (step 7). However, Deloitte's method for allocating between Pre-Existing IP and Cost-Shared IP are identical in steps 6 and 7. Therefore, I discuss them only once.

⁷² AEHT began making cost-sharing payments during 2005, before the Business Transfer Date. However, these payments were made pursuant to the Cost Sharing Agreement, not the License Agreement or the Assignment Agreement. Therefore, the existence of these payments does not provide a reason for differentiating between Licensed IP and Assigned IP.

These calculations suffer from a fundamental error. Deloitte's method assumes that the forecasted future profits arising from the IP transferred at the time of the restructuring are somehow reduced, or for some reason should be reduced, by the fact that AEHT will make IDC payments under the Cost Sharing Agreement. This assumption has the effect of taking some of the value of the IP that was transferred at the time of the restructuring and associating it with the IDCs to be made in the future.

Economic theory does not support the notion that forecasted IDCs of a buyer should attract premium residual profits in the future, thus reducing the value of the intangibles to the seller at the time of the transaction. This notion, if true, would imply that asset prices are determined not only by the total cash flows they are forecasted to generate, but also in part by the promised IDCs to be incurred by the buyer relative to those previously incurred by the seller. That is to say, under the logic of Deloitte's method, for a given amount of cash flow, higher expected expenses by AEHT under the CSA would allegedly reduce the value of the intangibles to AT at the time of the transaction because AT would allegedly accept a smaller portion—and AEHT demand a higher portion—of future residual profits. As such, because AEHT is expected to incur more future expenses relative to the AT's declining historical expenses, the current value of the asset to AT would allegedly decline.⁷³ This is not how asset prices are determined at arm's length.

As stated above, Deloitte defends its method by stating that "[b]ecause the PCT Payments relate to only Pre-Existing IP and the Assigned IP, it is necessary to allocate the intangibles profit based on the relative contribution of the Pre-Existing IP and the

⁷³ This decline would be on account of potentially lower expected future profitability due to the AEHT's higher cost, but also, incorrectly, on account of AT's reduced share of future profits.

Assigned IP and Cost-Shared IP that will be created subsequently."⁷⁴ This is Deloitte's only discussion of why it believes its allocation method is valid. It is difficult to know, therefore, what ideas or arguments Deloitte had in mind for thinking its method makes economic sense.

One possible explanation for Deloitte's approach is that the pre-existing IP would very rapidly lose value if IDC spending on it were to stop. However, even if this were true, it does not justify Deloitte's approach. To understand why, consider as a simplified analogy the value of a commercial airplane. The FAA has strict requirements for how often airplanes must be inspected and maintained. If an airline does not comply with the schedule of inspections and maintenance, it cannot fly the airplane and it will produce zero revenue. Consider an airplane that is due for an inspection in, say, six months. Assume that this airplane produces cash flow of approximately \$1 million a month while it is in use. Thus, the airplane will produce a total cash flow of approximately \$6 million before the required inspection. The current owner is free to decide that it will not have the plane inspected. If so, the total cash flow the plane will produce is only \$6 million. Does this fact imply that the owner would be willing to sell the airplane for \$6 million? The answer is no. The owner would and could sell the airplane for much more than this figure. The reason is that a potential buyer will be able to perform the inspection, renew the plane's FAA certification, continue to operate the plane after the six-month period, and earn cash flows well in excess of \$6 million. Thus, a willing buyer will offer much more than \$6 million for the plane, and a willing seller will therefore refuse to accept only \$6 million.

⁷⁴ Deloitte Report, page 35.

Under the logic of the Deloitte's method (i.e., allocation of forecasted IP profits according to historic IDC capital stocks and Cost-Shared capital stocks), an owner of IP allegedly is willing to accept less for an asset because the asset will become worthless in the future if the expenses necessary to preserve its value are not made. This is not a sensible way to value an asset. Instead, the proper question to ask is, how much cash flow will the asset produce into the future if the expenses that are clearly worthwhile continue to be made? As long as the cash flow, net of the required expenses, continues to be high, the asset will have a high value. This is true even though the asset would stop producing income if the expenses were not made.

In this case, Deloitte's reasoning seems to be that the intangibles conveyed under the License and Assignment agreements would be worth less at the time of the transaction since AT could choose not to pay the necessary future maintenance and development costs, just as an airline could choose not to do the required FAA inspection. Again, this is not how asset values are determined at arm's length. Instead, both the seller and the buyer in an arm's length transaction would know that the asset would continue to be more valuable over time if the appropriate amounts were spent on maintaining and renewing it.⁷⁵ Therefore, both the seller and buyer would value the asset assuming that such investment would continue to be made.

At arm's length, buyers cannot buy an airplane based only on a few months' use, nor can buyers purchase IP for expected future costs. Asset prices reflect the sellers' and buyers' anticipated future cash flows from use of the asset, not future costs relative

⁷⁵ This point is analogous to the concept of "highest and best use" in the context of appraisals. One could argue that an apartment building should receive a low appraisal because the owner could rent the apartments for zero or low rental rates. However, this would be an error. Instead, the appraisal should be based on market rental rates, because such rates represent a reasonable estimate of the "highest and best use" to which a potential new owner could put the building.

to the sellers' previous costs.⁷⁶ By bifurcating future profits between historic IDC capital stocks and forecasted Cost-Shared capital stocks, Deloitte's method results in a value for the IP which is less than the market would be willing to pay.

2. Weibull Amortization is Unreasonable

In order to allocate profits to the Pre-Existing IP and the Assigned IP, Deloitte capitalized and amortized IDCs to create IDC capital stocks. Deloitte then calculated the ratios of capital stocks related to the Pre-Existing IP and the Assigned IP, as percentages of the total IP capital stock. Deloitte computed these ratios for each PCT payment and used them to allocate IP profit for each one. This approach required Deloitte to make assumptions about the useful life and amortization of the IDCs. I do not believe Deloitte's assumptions were reasonable.

Deloitte used the Weibull distribution as the pattern for Amazon's IP amortization. Deloitte supported its use of the Weibull distribution by claiming that it is used in the software industry. I am not aware that the Weibull distribution is used by the software industry. Regardless, Amazon is not in the software industry; it is an internet retailer. Unlike Microsoft or SAP, Amazon's profits are not attributable solely or even mostly to software. Instead, IP that generates customer loyalty, such as the domain names and trademarks, are at least as important to Amazon's success as its software.

Deloitte showed in Appendix 6 that its customer life analysis fits a Weibull distribution. Deloitte did not mention the number of years over which this distribution

⁷⁶ One way to view the proper context for a valuation is to consider that an owner of an asset always has the alternative of retaining the asset for its own use and incurring the future costs necessary to maintain operation of the asset. Therefore, value is estimated based on all expected future profits net of expected future costs since if the current owner of the asset decided to retain ownership and incur all future costs, it would have sole claim to all future profits. At arm's length, the owner would not sell the asset for less than it could expect to earn itself.

was amortized. Based on the curve, it appears to be much greater than seven years and possibly up to 20 years. Furthermore, as discussed above, I am unconvinced as to the validity of Deloitte's customer lifing analysis. Therefore, whether or not the data from the customer lifing analysis fits a Weibull distribution does not prove to me that the Weibull distribution is a valid basis for amortization of IDC capital stocks in this instance.

In any case, the pattern by which the IDCs should be amortized is not relevant to a valid calculation of the amount that AEHT would pay for the transferred IP at arm's length. This is because an arm's length party that owns valuable IP would not be willing to transfer it merely because the transferee is going to spend money on IDCs in the future.

C. Implications of the Deloitte Report's Method

In sum, I conclude that the method used in the Deloitte Report suffers from fundamental flaws. Because of these flaws, the payments that the Deloitte Report recommends that AEHT make in return for the transferred IP do not reflect arm's length amounts. Recall that the Deloitte Report concluded that AEHT should make PCT payments during the seven-year period 2005-2011 which sum to approximately \$254.5 million.

Below I perform my own calculations to value the IP transferred to AEHT. These calculations are based on Amazon's forecasts of the revenues and expenses of the EU Website Business for 2005 through 2011, as shown in the Deloitte Report. In the context of these calculations, I can calculate how much AEHT would be forecasted to earn if it were to make the PCT payments recommended in the Deloitte Report. These

amounts of income, net of the PCT payments and net of forecasted IDC payments pursuant to the Cost Sharing Agreement, are:⁷⁷

Figure 2
AEHT Expected Profit
(\$ millions)

<u>Year</u>	<u>Expected Profit</u> <u>(\$ millions)</u>
2005	(159.4)
2006	148.2
2007	173.4
2008	319.0
2009	478.7
2010	652.5
2011	<u>828.4</u>
Total	\$2,440.8

Thus, over the seven-year period 2005-2011, I calculate that AEHT would earn approximately \$2,440.8 in operating profits from the EU Website Business. Yet, under Deloitte's method, it would pay a total of only \$254.5 million for the IP necessary to take over this business. Thus, over the seven years, AEHT would earn more than \$9 for every dollar it paid out for the IP necessary to take over the business.⁷⁸ In addition, AEHT would continue to earn profits after 2011 without making any further payments for the transferred IP.

This would be a very good deal for AEHT. Conversely, it would be a very bad deal for the US Amazon entities. They would give up more than \$9 in income for each \$1 in IP payments they receive during 2005-2011. In addition, they would give up all

⁷⁷ See Table 2 attached at the back of this report.

⁷⁸ $\$2,440.8 / \$254.5 = \$9.6$.

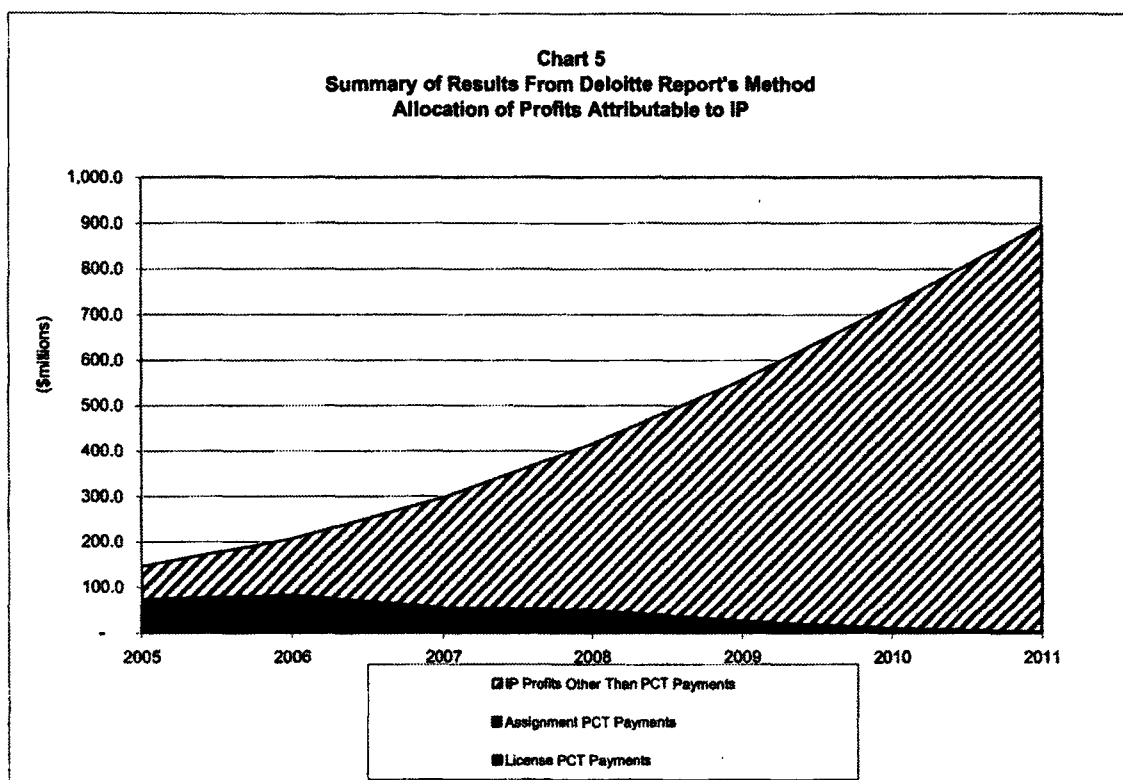
forecasted IP profits after 2011. In my opinion, this is not an arrangement to which arm's length parties would agree.

There is another way to express just how good a deal this would be for AEHT. One can view the above pattern of profits as an investment project by AEHT. By making the PCT payments and an IDC payment in 2005, AEHT would, in effect, lay out \$159.4 million in this year. Then it would earn the above forecasted amounts of profits (net of PCT payments) in 2006-2011. One can thus view the profits in 2006-2011 as a return on the investment made in 2005. How good an investment project would this be for AEHT? The way to answer this question is to consider the rate of return that AEHT would realize from it. A tool frequently used by financial analysts to calculate a rate of return on an investment project is the "internal rate of return" or "IRR". This concept and the formula for it are discussed in more detail below. It turns out that the IRR on AEHT's investment would equal 128 percent.⁷⁹ One hundred and twenty-eight percent is, of course, an extremely high rate of return to expect to receive on an investment. In my opinion, it is considerably higher than the rate of return that any reasonable arm's length investor would expect to receive in a comparable situation. Therefore, this result confirms, in my opinion, that the Deloitte Report's recommendations are not consistent with arm's length.

There is one more way to illustrate why I conclude that the Deloitte Report's recommendations are not reasonable. As discussed above, the Deloitte Report allocates the profits attributable to IP between, on the one hand, Licensed IP and Assigned IP and, on the other, Cost-Shared IP. The former two categories give rise to the PCT payments recommended by Deloitte. The third category equals the portion of

⁷⁹ See Table 2.

IP profits that AEHT does not have to pay to AT in return for taking over the operation of the EU Website Business. The following chart displays the relative amounts of these three types of IP profits:⁸⁰



In my opinion, it is clear that, under Deloitte's methodology, AEHT would be allowed to retain an unreasonably large portion of the IP profits arising from the EU Website Business. This occurs because Deloitte's recommendations for the payments that AEHT should make in return for the transferred IP are unreasonably low.

In sum, I conclude that the recommendations of the Deloitte Report are not consistent with the arm's length standard. Therefore, I perform my own analysis of the amounts that an arm's length party in AEHT's situation would pay in return for receiving

⁸⁰ Table 3 displays the figures that are graphed in Chart 5.

the IP transferred by the License and Assignment Agreements. To begin this analysis, in the following section I consider which method or methods are the best to use.

V. Analysis of Best Method

Given the available data, and in light of all relevant facts and circumstances and the principles of the best method rule in Treas. Reg. §1.482-1(c), I conclude that none of the specified methods described in the regulations is likely to provide a sufficiently reliable measure of an arm's length result for the transfer of the IP between AT and AEHT. Instead, I apply a discounted cash flow ("DCF") method as my primary method. Applicability of the specified methods is discussed in this section. In the following section of this report, I discuss the DCF method.

A. The CUT Method

I was unable to apply the CUT method as a primary method, but I do use unrelated transactional data to test the reasonableness of the results derived under my primary method. In its Merchant@ program, Amazon allowed (and allows) third party merchants to use its valuable intangible property in return for a fee charged as a commission on the merchants' sales. These third party seller channels allow other retailers to use Amazon's e-commerce solutions for their own sale of goods. I use the commission rates charged by Amazon as a way to test results derived from my DCF method.

Since AEHT differs from the retailers in the Merchants@ program, I have not relied on this CUT method as a primary method. Commission rates in the program vary based on product mix and may vary based on volume of transactions. I am not

confident that I can adjust reliably uncontrolled commission rates for product mix and volume differences between the related and unrelated party transactions. In contrast, the DCF method I apply is specific to the expected cash flows of AEHT and therefore recognizes the effect of expected product mix, volume, and ultimately profit or losses on intangible property values.

B. Profit Split Methods

The profit split methods would not be reliable methods to apply in this case in my opinion. I am unaware of any comparable transactions which would allow me to apply reliably the comparable profit split method.

The residual profit split method would also produce unreliable results. At the date of the intercompany agreements, AEHT did not own any IP of its own. As discussed above, AEHT was created as part of the restructuring. Prior to the Cost Sharing Agreement, AEHT did not incur any IDCs. Further, before the restructuring, the EU Website Business was conducted by two US companies—AIS and AIM—not AEHT. Because of the absence of AEHT's ownership of significant IP of its own before the transfer under the License and Assignment Agreements, the residual profit split method is not the best method. That is to say, all value of the transferred IP belonged to AT; accordingly, there is no need to determine a split of profits attributable to IP at the time of the transfer. Consistent with these facts, in my DCF method I determine the arm's length value of all IP and recognize that full ownership of this IP resided with a US company.

C. Comparable Profits Method

The CPM also would not produce a reliable measure of an arm's length result in this case.⁸¹ It would be difficult to find companies with operations comparable to those of AEHT, which would be the only logical choice as tested party. Typically, comparable companies used in CPM analyses own no (or only routine) intangible property and have limited market risks. That is to say, no matter how successful or unsuccessful a product may be in the market place, the tested party's compensation would be relatively unaffected.

Unlike the "typical" tested party, AEHT assumes both development and market risks with respect to sales in the EU. The intangible value I determine under the DCF method reflects this very different and relatively higher risk structure. AEHT's profits will be tied to market fortunes, and its return will not be benchmarked to the routine level of profits or losses more typical of a CPM. This outcome is consistent with arm's length dealings in my opinion.

D. Conclusion on Applicability of Methods

I conclude that the best method to apply in this case is an unspecified method. In my opinion, the DCF method, which is discussed in detail below, provides the most reliable way to determine the arm's length value of the IP transferred to AEHT under the License and Assignment Agreements. When a company acquires assets at arm's length, it generally pays a price which reflects the present value of the cash flow stream

⁸¹ The focus of my analysis is the valuation of the transferred intangible property to AEHT. I understand that the EU service affiliates (in the UK, Germany, and France) are compensated at costs plus a profit markup. I believe the arrangement with the EU service affiliates to be a reasonable approximation of an arm's length arrangement. However, I have not tested the arm's length nature of this compensation. The CPM would likely be the best method for determining this compensation.

those assets are expected to generate in the future. The DCF methodology that I apply is consistent with this general valuation principle.

VI. Valuation Using Discounted Cash Flow

A. Discounted Cash Flow (DCF)

DCF is a method for estimating market values which is widely accepted by economists, mergers and acquisition specialists, company financial professionals, and valuation experts because it is based on sound financial principles.⁸² Most assets, including entire businesses, are worth the discounted value of cash flows they are expected to generate. Its application requires an estimate of future cash flows, the timing of the cash flows, and an understanding of the risk of the investment.

Companies buy and use assets—and one goal of corporate investment policy is to find assets that cost less than the cash flows they are expected to generate. Value is based on *expected* cash flows because at the time of a transaction (e.g., the investment in an asset) future cash flows cannot be known for certain.

The use of DCF to estimate value is so well-recognized that Jeff Bezos, founder and CEO of Amazon, has made it a central part of the firm's corporate culture. Mr. Bezos made this clear in his 1997 letter to shareholders.⁸³ The 1997 letter states, "[w]hen 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."

⁸² For a description of DCF, see any introductory financial textbook. For example, see Brealey, Richard A., Myers, Stewart C., and Allen, Franklin, *Principles of Corporate Finance, 9th Edition*, New York: McGraw-Hill Companies, 2008. See also Laro, David and Pratt, Shannon P. *Business Valuation and Taxes: Procedure, Law, and Perspective*, New Jersey: John Wiley & Sons, Inc., 2005; Koller, Tim, Goedhart, Marc and Wessels, David, *Valuation: Measuring and Managing the Value of Companies, 4th Edition*, New Jersey: John Wiley & Sons, Inc., 2005; and, Damodaran, Aswath, *Damodaran on Valuation, 2nd Edition*, New Jersey: John Wiley & Sons, Inc., 2006.

⁸³ The 1997 letter has been attached to every subsequent letter to shareholders in the company's Annual Report.

Further, in his 2004 letter to shareholders, he names free cash flow per share "our most important financial measure." In fact, Mr. Bezos explains that cash flow is more important than book earnings since "earnings don't directly translate into cash flows, and shares are worth only the present value of their future cash flows, not the present value of their future earnings. Future earnings are a component—but not the only important component—of future cash flow per share. Working capital and capital expenditures are also important, as is future share dilution."⁸⁴

B. DCF For One Period Cash Flow

This section provides an example of how DCF is applied to value a single future cash flow. It introduces the concepts of present value and discount rates.

If an investor expects to receive a \$100 cash flow at the end of the year, and the market interest rate that reflects the "risk" of the \$100 is 5%, then that cash flow is worth only \$95.24 today (at the beginning of the year). There is some risk that she may not receive her promised \$100; therefore, she would only trade off less today for the promise of more in the future. Notice that she could invest the \$95.24 today at 5% interest, and have \$100 at the end of the year.

The "discount rate" (like the 5% used above) should reflect the risk of the investment.⁸⁵ If an investment is riskier the discount rate is generally higher. A bank account earning a 5% interest rate may be relatively safe because an investor knows at the end of the year she could expect to earn about 5%,⁸⁶ but the expected return on an

⁸⁴ 2004 Amazon Annual Report.

⁸⁵ This risk (and discount rate) is often assessed by considering the required return on comparable alternative investments, and is why a discount rate is often referred to as an "opportunity cost of capital." "Opportunity cost" is the benefit that must be foregone as a result of choosing an alternative.

⁸⁶ Assuming she has invested with a creditworthy bank.

investment in her college-age daughter's start-up internet company may be less certain—it could be a huge success or it could be a huge failure. As such, an expected \$100 dividend from her daughter at the end of the year will be worth less than \$95.24 today (i.e., the discount rate would be higher). The exact methods for estimating discount rates can be complex, but generally, the greater the risk (i.e., uncertainty) of an investment, the higher the discount rate. The return for a given level of risk is, however, constrained by competition in capital markets for investor dollars and investment projects.⁸⁷

The simplest discounted cash flow formula, assuming one payoff in one year's time, can be written as:

$$PV_0 = CF_1 / (1 + r)$$

where:

$PV_0 =$	Present value (today)
$CF_1 =$	Cash flow at end of year 1
$r =$	Discount rate

By using this formula, if I have an estimate of the expected cash flow at the end of the year (e.g., \$100), and I have an estimate of the discount rate (e.g., 5%), I can estimate the market value of the investment (\$95.24 = \$100 divided by 1.05).

⁸⁷ Different methods have been developed to estimate appropriate discount rates. These methods include, for example, the weighted average cost of capital ("WACC"), which is calculated as a company's weighted average of its cost of debt and cost of equity. Since the cost of equity is not an explicit out-of-pocket cost (like interest expense) the cost of equity capital is often calculated using the capital asset pricing model ("CAPM"). For a detailed discussion of discount rates, WACC, and CAPM, see any introductory corporate finance textbook such as Brealey, Meyers and Allen, *Principles of Corporate Finance*, 9th Edition, 2008, Chapter 10.

C. Internal Rate of Return

Since DCF is a mathematical formula, it can be rearranged to solve for any of the variables. As an example, if I know what arm's length parties pay for an asset, and I know the expected cash flow, I can estimate the discount rate implicit in its calculation. Expressed as a formula:

$$r = (CF_1 / PV_0) - 1$$

Using the example above, if the cash flow is \$100, and the asset value is \$95.24, then I can infer that the discount rate is 5% (i.e., \$100/\$95.24 minus 1). This rate is often referred to as the "internal rate of return" (IRR) and is the discount rate that sets future cash flow equal to present value.

D. DCF For More Than One Period

Although the example above assumes that cash flows occur in only one year, the model also works for cash flows occurring over many years. The formula is just an expansion of the one provided above. That is, $PV_0 = CF_1/(1+r) + CF_2/(1+r)^2 + \dots + CF_n/(1+r)^n$, where "n" equals the number of years to be discounted.

As an example, the present value of an investment expected to generate \$100 at the end of year 1 and at the end of year 2, given a 5% discount rate, would be \$185.94. The first year cash flow is discounted to \$95.24 (as in the example above), and the second year cash flow is worth \$90.70 today (which is equal to \$100/1.1025).⁸⁸ Notice that the second cash flow is discounted more than the first cash flow (i.e., \$100 to be received in year 2 is discounted by 9.3% of the expected \$100 cash flow, while the \$100

⁸⁸ 1.1025 is the 5% discount rate raised to the second power ($1.1025 = 1.05^2$).

to be received in year 1 is discounted by only 4.8%). The more distant cash flow is riskier, and therefore worth less today on a present value basis because of both the extra distance in time and the extra risk.

Companies often forecast profits or cash flows over a fixed period of time (e.g., a five-year budget forecast), but would normally expect their operations to continue after that period. If a company's cash flows are expected to grow at a steady rate after some point in the future, then a simplified DCF formula can be used to estimate value at that point. The year in which expected growth in cash flow becomes steady is sometimes termed the "terminal year" (TY) in a DCF model.⁸⁹ The present value of all expected cash flows after the terminal year (i.e., stable growth indefinitely) is equal to $PV_0 = CF_1 / (r - g)$, where the variables are as defined above, and "g" is equal to the expected growth rate in cash flows.

Terminal year assumptions are often built into DCF models since companies generally expect to generate cash flow indefinitely,⁹⁰ but it would be impractical to develop a spreadsheet that discounted individual year cash flows forever. At some point, simplifying assumptions can be made about steady growth in expected cash flow (e.g., grow at the rate of the economy generally); then, the simplified formula using the terminal year approach can be used.

⁸⁹ For example, see Laro and Pratt, page 187. Brealey, Myers and Allen call the same concept the "horizon value"; see page 104.

⁹⁰ Businesses are generally valued as if they operate forever; therefore, forecasting cash flows into perpetuity makes sense for valuation purposes. Of course, cash flows forecasted to occur in the distant future should be discounted heavily. Businesses may be acquired, but an estimate of the value of business at the time of acquisition is the present value of the then-future cash flows. Consequently, value today can still be based on the present value of cash flows into perpetuity. Companies may also go bankrupt, but in this case there was no indication that Amazon expected bankruptcy.

E. Using DCF to Value Existing Assets

The DCF method relies on estimates of expected *cash flow*, not accounting income.⁹¹ First, book net income does not represent the real inflows and outflows of cash necessary to run a business (i.e., money that investors can put in their pockets). For instance, accounting net income includes a deduction for depreciation expense, which is not a cash flow at all, and excludes a deduction for a capital expenditure in the year incurred, which does represent an outlay of cash. Accounting net income is typically converted to cash flow by adding back any depreciation (and amortization) expense, deducting capital expenditures, and deducting any investments in net working capital (e.g., net increases in accounts receivables).⁹²

Second, using cash flow rather than accounting profits ensures that a DCF result represents the value of *existing* assets only. The goal of DCF is to value existing assets (tangible and intangible), and therefore must exclude the value of a company's future investments which may have a claim on some of the company's future profits. DCF accomplishes this by deducting expected future investments (e.g., capital expenditures, increases in working capital, R&D expense) in estimating cash flow.⁹³

Here is an example. Assume the same investment opportunity above that generated \$100 and used a discount rate of 5%. The value of the investment was \$95.24. Suppose that the investor has the identical investment opportunity—that is, the

⁹¹ For example, see Brealey, Myers and Allen, page 143.

⁹² The growth in net working capital (e.g., current assets less non-interest bearing current liabilities) represents cash which is retained in, and necessary to the operations of, a business.

⁹³ Consider the alternative of discounting accounting profits rather than cash flows. In this case, the present value would represent the benefits of all investments (e.g., profits from the expansion of a manufacturing plant), but not all the cost of the investments (e.g., the cost of the plant expansion). Estimating future cash flows by deducting from accounting profits some "routine" return on future investment is also impractical. As discussed below, since the *expected* return attributable to a *future* investment generally equals the investment's cost, the simple answer is to deduct the cost of the investment in deriving cash flow.

investor can expect to earn \$100 in year 1 and has a discount rate of 5%—but can also make an investment of \$90 during year 1 in return for an expected \$94.50 in year 2. Now, the investments (the one today and the one next year) have the following cash pay-outs:

	<u>PV₀</u>	<u>CF₁</u>	<u>CF₂</u>
Cash inflow		\$100	\$94.50
Cash outflow		\$90	\$0
Net cash flow	??	\$10	\$94.50

What is the value of the investment today? That is to say, what is the value of an investment opportunity which is expected to return \$100 in year 1, \$94.50 in year 2, but requires an additional investment of \$90 during year 1? The table below shows that the value is still \$95.24.

	<u>PV₀</u>	<u>CF₁</u>	<u>CF₂</u>
Cash inflow		\$100	\$94.50
Cash outflow		\$90	\$0
Net cash flow		\$10	\$94.50
Present value ⁹⁴	\$95.23	\$9.52	\$85.71

The present value today of this two-year cash flow has not changed from the value of the simple one year cash flow.⁹⁵ In this example, the \$90 investment opportunity has a net present value (in year 1) of zero. That is to say, by investing \$90 in year 1 and earning \$94.50 one year later, the net present value of the investment is

⁹⁴ The present values of the cash flows are calculated by discounting CF₁ at 5% (i.e., 1.05), and CF₂ at the same 5% rate, but compounded for two periods (i.e., 1.05² = 1.1025).

⁹⁵ Slight difference due to rounding.

zero and does not add to the value of assets in place today.⁹⁶ By deducting next year's investment opportunity, I have excluded from my valuation of the *existing* assets the future value of the new investment opportunity. In other words, the \$90 investment opportunity must be deducted in deriving cash flow, otherwise the present value would include only the future investment benefit (i.e., \$94.50), but not the cost.

Of course, I could achieve the same result of valuing only existing assets by excluding the benefit (the \$94.50) of the \$90 investment and the \$90 investment from the cash flows altogether. While this procedure may work for this simple example, it would be impractical to apply in practice. First, the timing of the benefits would be impossible to determine (i.e., when does the profit from a particular investment show up on the income statement), and therefore would be difficult to exclude from cash inflows. Second, as explained below, the expected value of future investments is generally worth no more than cost since the investments have not yet been made. So, the simple solution is to deduct future investment cost in deriving cash flows.

In the example above the future investment of \$90 was expected to earn its cost of capital (i.e., an IRR of 5%), so the value of the investment was just equal to its cost. Consequently, excluding the investment and its \$94.50 return from cash flows did not have an effect on the \$95.23 present value. However, if expected profits on future investments were greater than the cost of the investment (including capital cost), then the expected excess profits (i.e., profits over and above capital costs) must be attributable to assets in place today. In competitive capital markets, investors seeking returns greater than their costs of capital would drive up prices, thus equating the

⁹⁶ The net present value is the present value less the investment. So, in this case, the present value is $\$94.50/1.05 = \90 minus the investment of \$90, which yields zero.

- expected return on investment with the cost of capital. An investor could only expect to generate returns greater than market returns if it possessed some specialized knowledge, ability, legal protection, or similar factors that allowed it to expect to generate more from use of assets than the market can. Those "intangibles" are not inherent in the investment opportunity; instead, such intangibles are part of the investor's collection of assets today. DCF correctly estimates that value by deducting the cost of future investments in deriving cash flow. This is illustrated in the following example.

Suppose that as a result of the investor's experience with the first investment (which is expected to generate \$100 in year 1), she now thinks that her investment of \$90 made during year 1 will yield an expected cash flow in year 2 of \$110. She knows that she possesses some skill today (experience with capital investments, R&D, something else) which permits her to expect higher earnings on future investments. The new cash flow scenario and present value would look like the following:

	<u>PV₀</u>	<u>CF₁</u>	<u>CF₂</u>
Cash inflow		\$100	\$110
Cash outflow		\$90	\$0
Net cash flow		\$10	\$110
Present value ⁹⁷	\$109.29	\$9.52	\$99.77

The present value of these new investment opportunities is \$109.29. The higher present value (i.e., \$109.29 is greater than \$95.23 in the prior example) is due to the expected higher earnings on the year 1 investment of \$90. In fact, that investment is

⁹⁷ The present values of the cash flows are calculated by discounting CF₁ at 5% (i.e., 1.05), and CF₂ at the same 5% rate, but compounded for two periods (i.e., 1.05² = 1.1025).

expected to earn about 22% (and yield \$110).⁹⁸ Since this rate is much greater than the 5% discount rate (i.e., the opportunity cost of capital that could be earned on alternative investments with the same risk), the investment contributes to existing value. It contributes to existing value since her investment skill leads to an expectation of higher earnings that exists today. If such skill did not exist, then the forecasted earnings in year 2 would not be \$110, but only \$94.50.

F. Pre-Tax Cash Flows

DCF valuations are typically performed using *after-tax* cash flows.⁹⁹ The reason is that investors are concerned with cash flows that the investment will return to them. Income taxes are not income to investors, but income to the government, and therefore should be excluded from investors' calculations. Consequently, in a "typical" asset acquisition an acquirer pays an after-tax value for the asset, and then realizes cash flow on an after-tax basis (i.e., after it pays taxes on the income generated from use of the asset).

Under cost sharing, a cost share participant (the PCT Payor) can make its PCT payments as a lump sum, installment, or royalties, all of which are treated as ordinary income by the PCT Payee. Since the form of the payment is *pre-tax*—that is, since the PCT Payee will have to pay taxes at ordinary tax rates on the PCT payments—the present value of the PCT payments should be calculated on a pre-tax basis. In other words, in contrast to the "typical" asset acquisition in which an acquirer pays an after-tax value and realizes after tax income, a PCT Payee will realize income from its

⁹⁸ Using the IRR formula, $(\$110/\$90) - 1 = 22.2\%$.

⁹⁹ Brealey, Myers and Allen, page 144.

valuable intangibles on a pre-tax basis, therefore it should value its cash flow stream on a pre-tax basis.

An appropriate method for calculating a pre-tax value is to discount pre-tax cash flows at an after-tax discount rate. Assuming the same tax rate in every year, the present value of after-tax cash flows discounted at an after-tax discount rate and then grossed-up for the pre-tax nature of the PCT receipts is equivalent to pre-tax cash flows (e.g., after-tax cash flows grossed-up at the tax rate) discounted at an after-tax discount rate.

G. Using DCF to Value Existing Intangible Assets

The present value derived under a DCF represents the estimated market value (on the valuation date) of the existing operating assets of a business, including both tangible and intangible assets.¹⁰⁰ A company's total operating assets are equal to the sum of its tangible property (e.g., financial assets, net working capital, fixed assets) and intangible property (e.g., patents, trademarks, going concern). Therefore, I can estimate the value of a company's intangibles by deducting a fair market value estimate of tangible property. In many cases, especially with respect to cash or short-term net working capital, tangible property *book* values can be a reasonable estimate of market values.

The next section of this report applies the DCF method to estimate the value of the payments that AEHT would have made at arm's length in return for the IP transferred to it by the License and Assignment Agreements.

¹⁰⁰ Since a DCF estimates the market value of operating assets, any non-operating assets (e.g., excess cash, marketable securities, equity investments) should be added to the DCF value to derive the total value of a company.

VII. Application of DCF to IP Involved in Transfer of EU Website Business

Effective January 1, 2005, AT and AEHT signed the License and Assignment Agreements under which AT transferred the use of valuable intangible assets to AEHT. The IRS has asked me to estimate the arm's length value of this transferred IP.

In my analysis, I determine the value the intangible assets transferred to AEHT under the License and Assignment agreements as of January 1, 2005. Cash flows relating to AEHT's cost sharing payments began in 2005, but the bulk of AEHT's cash flows started on the Business Transfer Date, April 30, 2006. By using a January 1, 2005 valuation date, I am assuming that, when the parties signed the License and Assignment agreements in 2005, they were expecting the bulk of AEHT's cash flows to commence approximately when they did.¹⁰¹ This approach is reasonable in my opinion and significantly simplifies the analysis since it is not necessary to conduct a separate analysis of the Assigned IP value from the period January 1, 2005 to April 30, 2006.¹⁰²

Valuing IP like that transferred by AT is similar to the examples given above in Section VI but with some added complexity. First, one has to forecast the cash flows that AEHT is expected to earn from exploitation of the IP transferred by AT—and reasonably forecasting future cash flows can be difficult. Second, one needs to estimate an appropriate discount rate to apply to those cash flows to reduce them to present value. Cash flows generated by businesses are generally riskier than cash flows earned from a bank account (like the 5% used in my examples above); therefore,

¹⁰¹ The Assignment Agreement's definition of Business Transfer Date indicated that this date was "expected to occur during 2006".

¹⁰² As discussed above, Deloitte made an adjustment to its value calculation for this period using a complex method involving Waterstones (a third party), and various assumptions. Under the method I employ the value of intangibles attributable to this interim period between the License Agreement and Assignment Agreement dates is simply equal to the estimated cash flows recorded by AIS and AIM, not AEHT, during the period.

the discount rate used for a business valuation is typically higher than a bank savings rate.

Finally, by discounting cash flows one estimates the value of all operating assets, but I want to value only the intangible assets transferred by AT to AEHT. At the time of the transfer, AEHT was a brand-new entity and therefore clearly did not have pre-existing intangibles of its own. Consequently, I can estimate the value of the transferred intangible assets by subtracting from total value the value of the tangible assets involved in the European website business. Table 4 summarizes this analysis.

A. Cash Flows

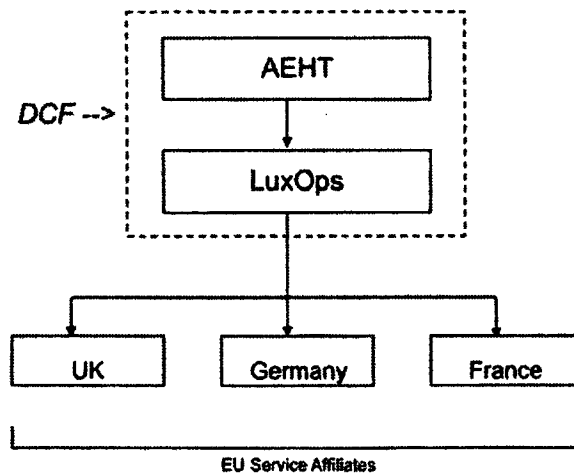
1. Profit Forecasts

As described above, accounting profits are not equal to cash flow, but accounting profits are an important component of cash flow. I use Deloitte's projected operating profits for the years 2005 to 2011 in estimating total cash flow. I make two important adjustments to Deloitte's projections.

First, Deloitte did not deduct IDCs—AEHT's cost share payments—from profit. Since AEHT will make cost sharing payments under the CSA, AEHT's expected future profits from exploitation of the transferred IP will be reduced by these payments. Consequently, it makes sense to reduce AEHT's forecasted operating profits by the level of forecasted cost sharing payments. I have used Deloitte's estimates of these payments that were included in the financial model developed for the Deloitte Report.¹⁰³ Forecasted income statements, including the deduction for cost sharing payments, are shown on lines 401 to 407 of Table 4.

¹⁰³ Spreadsheet provided in response to IDR I-11.

The Deloitte forecasts include substantial deductions for AEHT's payments to the EU service affiliates (through LuxOps) (see Table 4, lines 404 and 422 to 426). I understand that the EU service affiliates are reimbursed at their costs plus a markup. As shown on Table 4, lines 422 to 426, AEHT's total operating costs other than these intercompany payments (i.e., AEHT's "value-added" costs) equal at most 3.2% of total forecasted revenues over the forecast period. Since the intercompany payments to the EU service affiliates are deducted in the projected income statements, the profit remaining consists of profits earned in Luxembourg by AEHT (and LuxOps) only. Therefore, the profits I use in my analysis are the combined profits of AEHT and LuxOps, but after AEHT's payments under the cost sharing agreement. This is shown graphically below:



The second adjustment I have made to the Deloitte forecasts is to "zero out" all profits in 2005 and January to April 2006. (See the 2005 and 2006 columns of the DCF calculations on Table 4.) I understand that prior to the Business Transfer Date of April

30, 2006, AIS and AIM continued to record income and cash flows from the European website business. Consequently, it would be inappropriate to include in my forecasted AEHT cash flow any income or cash flow from this period, other than AEHT's cost-sharing payments.

2. Cash Adjustments

For DCF valuation purposes I am interested in *cash flows*, not accounting profits. As discussed above, accounting profits are typically converted to cash flow by adding back any depreciation (and amortization) expense, deducting capital expenditures, and deducting any investments in net working capital (e.g., net increases in accounts receivables).

As Amazon states in its management discussion of the 2004 Form 10-K, "Because we are able to turn our inventory quickly, we have a negative operating cycle that is a source of cash flow."¹⁰⁴ In addition to quick inventory turns, Amazon gets paid almost immediately because consumers use credit cards or transfer funds from their bank accounts at the time of their purchases while Amazon's suppliers grant normal business terms for payments. The difference in payment terms is also a source of cash flow to Amazon.

Since value is determined on the basis of cash flow, not accounting profits, Amazon's negative working capital is a source of added value for the company. Table 4a provides an example of why this is the case. Column <a> of Table 4a is the forecasted 2008 P&L for the European website business on an accrual basis.¹⁰⁵ Columns to <f> show adjustments to the accrual accounting conventions based on

¹⁰⁴ See page 27 of Amazon's 2004 Form 10-K. Footnote omitted.

¹⁰⁵ I elected to use 2008 data in this example, but data from any other year also would have sufficed.

actual balance sheet changes from 2007 to 2008 (e.g., accounts receivables, accounts payables) to derive a cash basis P&L in column <g>. The operating profit margin calculated from the accrual basis P&L is 5.6% (line 408), but the cash basis P&L has an operating profit margin of 9.2%. The difference in these margins is a quantification of Amazon's ability to collect cash early, pay vendors late, and manage inventory levels efficiently.

On Table 4, lines 409 to 411 show the cash flow components which I have incorporated into my analysis. Details of these calculations are explained in Appendix A. The sum of these cash flow amounts (sum of lines 409 to 411) is deducted from operating profits to convert AEHT forecasted profit into forecasted cash flows. Notice that, due to AEHT's favorable net working capital projections, the cash flows shown in line 412 are considerably larger than the operating profits in line 407 after the first year.

3. Growth Rate

I have made another adjustment to AEHT's forecasted cash flow data. Amazon provided Deloitte with AEHT's forecasted profits through 2011, but AEHT would have expected to continue operating after this year. Therefore, I have estimated cash flows after 2011 and included them in my calculations.¹⁰⁶

To estimate these cash flows, I use a 3.8% terminal year growth rate in 2011 (i.e., cash flows after 2011 are assumed to equal 2011 cash flows grown at 3.8%). On Table B located in Appendix B, I calculate this 3.8% growth rate using forecasts as of October 2004 as provided by Consensus Economics Inc., a leading macroeconomic survey company based in London. This 3.8% rate approximates the nominal gross

¹⁰⁶ Calculations for years after 2011 are condensed into the column headed "Terminal Year." The use of terminal years in DCF analyses is discussed above in Section VI.

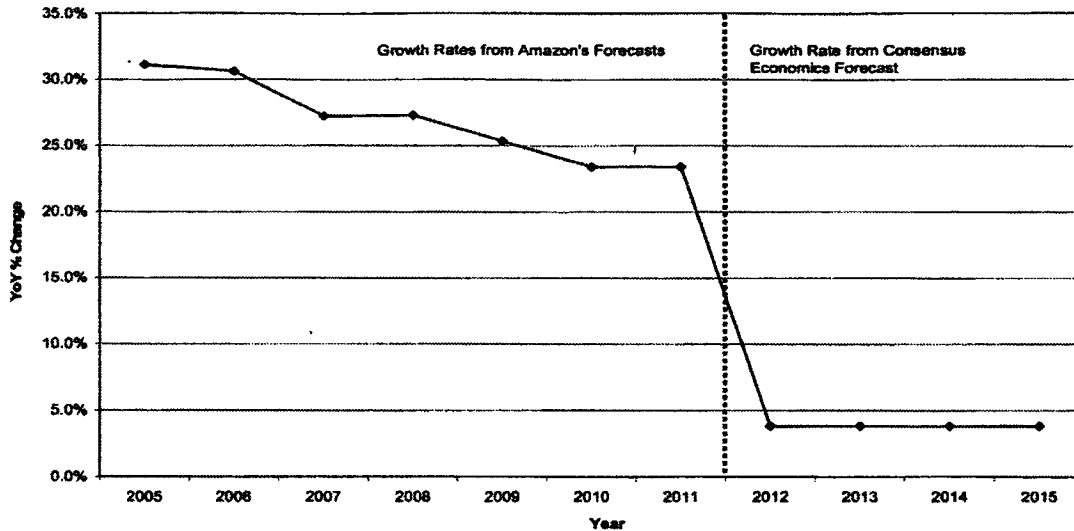
- domestic product (GDP) growth rate for the European market from 2010 to 2014. GDP is the market value of goods and services produced domestically on an annual basis.¹⁰⁷ The change in nominal GDP reflects both "real" growth (i.e., increases in output) and inflationary growth.

The chart below shows that, for Amazon's forecast period 2005-2011, AEHT's compounded annual growth rate ("CAGR") in operating profits was 35.9%.¹⁰⁸ Its growth rate in profit from 2010 to 2011 was 26.5%. Implicit in the projected growth during this period is the rapid growth of online shopping in Europe due to the increased acceptance and adoption of this new retail channel by consumers. I would not expect these high growth rates to be sustainable in the long run. Rather, once online shopping matures into a widely accepted retail channel, I would expect growth rates to enter a lower, more stable state. Therefore, I believe it is reasonable to expect that the long term growth rate would be much lower than the projected growth rates from 2005-2011. In my opinion, growth at the rate of nominal GDP is a good estimate for Amazon's expected growth in sales once the rate of internet sales no longer grows faster than the rate of the economy generally. Note that this may not happen abruptly in 2011-2012. If I had assumed a slower transition in growth rates to the nominal GDP growth rate, the DCF value would have been higher.

¹⁰⁷ See Gwartney, James D. and Richard L. Stroup, *Economics: Public and Private Choice*, Seventh Edition, The Dryden Press, 1995, page 144.

¹⁰⁸ This is the growth rate from 2004 to 2011, as calculated on line 119 of Table 1.

Chart 6
Amazon EU Website Business
Forecasted Year over Year % Change in Revenue
2005-2015



B. Discount Rate

As discussed above, a discount rate should reflect the risk of an investment. The term "discount rate" is often used interchangeably with "weighted average cost of capital" ("WACC"), "opportunity cost of capital," "cost of capital," or "hurdle rate." Deloitte used Amazon's WACC of 13% as provided by Amazon.¹⁰⁹ In order to verify the reasonableness of Deloitte's use of a 13% rate, I calculated Amazon's WACC as of December 31, 2004. Table 5 shows this analysis. My calculations indicate that an 18% cost of capital is reasonable for Amazon, which is significantly higher than the 13% rate used by Deloitte.¹¹⁰ A higher cost of capital (i.e., discount rate) produces a lower

¹⁰⁹ Deloitte report, Appendix 9

¹¹⁰ As shown in Table 5, I use the capital asset pricing model ("CAPM") to estimate Amazon's cost of equity capital. Of the available methods for estimating equity cost, the CAPM is widely used due to its simplicity and availability of data inputs. Under CAPM, a company's cost of capital varies in direct proportion to beta, a measure of a stock return's variability relative to the returns for all stocks. I believe that CAPM provides a reliable estimate of Amazon's equity cost in this case. For a more complete discussion of CAPM, see, for example, Brealey, Meyers and Allen, pages 213 - 222.

present value of cash flows.¹¹¹ Consequently, based on my own calculations and to reflect the risk of AEHT's anticipated operations in the European market, I use an 18% discount rate in my calculation of the DCF.

Further, I verified that the 18% rate is reasonable by comparing it to different WACCs prepared and published by Ibbotson Associates ("Ibbotson") in its *Cost of Capital Quarterly 2004 Yearbook* (which analyzes data through December 2004).¹¹² Ibbotson provides cost of capital data by Standard Industrial Classification ("SIC") code in its annual *Yearbook*. For SIC code 5961—catalog and mail-order houses—Ibbotson calculated the costs of capital for 23 companies and presents median percentages, which varied depending on the exact methodology used to estimate the WACC. These costs of capital had a low of 10.35% and a high of 22.33%.¹¹³ The 18% rate falls within this range of rates.

Table 4 line 417, shows that by discounting the forecasted cash flows at the 18% discount rate,¹¹⁴ I derive a present value of \$3,603.4 million.

C. Estimated Intangible Value

The \$3,603.4 million present value represents cash flows available on all operating assets, including tangible and intangible assets. In order to estimate the value of intangible assets only, I deduct the book value of AEHT's net tangible assets on

¹¹¹ The valuation result is sensitive to the discount rate. Had I used Deloitte's 13% rate, my estimated intangible value would have been 70% higher.

¹¹² Ibbotson is a widely used and respected source. Its cost of capital data are available at https://secure.morningstar.net/mstarstore/Store_IBSearch.aspx.

¹¹³ The different calculation methodologies include CAPM, CAPM plus a small company premium, the 3-Factor Fama-French model, 1-stage discounted cash flow, and 3-stage discounted cash flow. Definitions and methodologies are discussed in detail in the *Yearbook* cited above.

¹¹⁴ I have discounted the cash flows assuming that they are received on average about 55% of the way through the year. This factor is greater than the more typical half-year convention of 50% due to the seasonality of Amazon's sales. See Table C in Appendix C, which calculates the 55% period factor.

line 418. These net tangible assets are shown on Table A-1 located in Appendix A. They consist primarily of negative working capital, cash, and marketable securities. Since the book value of such assets (e.g., cash) typically equals market value, I believe the -\$1.8 million book value of these assets is a good estimate of market value. As shown on line 419, an intangible value of \$3,605.1 million is implied after deducting the -\$1.8 million value of tangible assets.¹¹⁵

VIII. Tests of Reasonableness

In order to test the reasonableness of the results derived under the DCF method, I also apply a CUT method and a market value method, as described below.

A. CUT Method Using Merchants@

As discussed above, Amazon offers programs that enable third parties to sell their products on Amazon's websites. These programs allow customers to shop for these merchants' products using Amazon's features and technology, and allow customers to complete transactions with several different vendors in a single checkout process. Amazon is not the seller of record for these transactions; rather, Amazon earns fixed fees, sales commissions, and possibly other fees from the vendors. In Appendix D I provide a summary of Amazon's standard agreement for this program.

¹¹⁵ Note that there is no need to deduct returns on future tangible property investments since such future investments have already been deducted in deriving cash flow (e.g., capital expenditures). As discussed in Section VI.E. above, any expected premium return over the opportunity cost of capital on future investments is attributable to some intangible quality present on the valuation date; otherwise, why would the investor expect a premium return? Consequently, I have deducted the returns to future tangible property investments through my deduction from cash flows of increases in net working capital and fixed capital expenditures. I have not deducted from future cash flows the return on existing tangible property investments. That is why I deduct the current estimated market value of net tangible property of -\$1.8 million to derive intangible value.

As described by Deloitte, the third party sellers channel allows Amazon to offer the following advantages to these third parties:¹¹⁶

- Strong global brand recognition;
- Web merchandising, including patented search technologies, personalization, patented 1-click ordering, editorial content and customer reviews, and data-driven automation;
- Technology infrastructure;
- Customer service, including a global 24-hour customer support network, customer self-service technology, and proprietary e-commerce call center technology;
- Global fulfillment capabilities fully integrated to a website; and
- Customer traffic and acquisition involving Amazon's millions of customers and its Associates Program.

Under the License and Assignment Agreements, AEHT licenses these very same intangibles; that is, use of AT's strong global brand, customer traffic, technology infrastructure, search technologies, etc. Amazon possessed valuable intangible property which third parties were willing to pay to use. I have used the fees paid by the third parties to estimate arm's length commission rates that AEHT would have paid under its intercompany agreements had it been an independent party. I then use these implied arm's length commission rates to derive an alternate estimate of the value of the transferred IP.

1. Deloitte February 1, 2006 Memo

In a memo dated February 1, 2006, Deloitte used a similar method to value certain technology intangibles owned by AT and A9 with respect to the website www.amazon.co.jp ("AIS JP website business"). In Deloitte's words, the purpose was to "present the analysis of the Technology value belonging to the Amazon U.S. Technology Group, and the computation of AIS's economic income attributable to the

¹¹⁶ Deloitte report, page 8.

AIS JP Business, taking into account the contributory value of the Technology."¹¹⁷

Deloitte concluded that "when the continued material and significant contribution of the Technology is taken into account, the AIS JP Website Business experienced significant economic losses."¹¹⁸

Deloitte came to this conclusion by evaluating fees paid by Target Corporation to Amazon under an arrangement which allowed Target to use Amazon's e-commerce platform and technology, which were "substantially the same intangible assets as those identified as the Technology provided to AIS by [AT and A9]."¹¹⁹ Deloitte concluded that estimates of the implied royalty rate in the Target agreement ranged from 9.3% to 12.1% with an average rate of 10.6%. When a rate of 10.5% on sales¹²⁰ was deducted from the profits of the AIS JP website business, the AIS JP website business showed significant losses.

Unlike AT's intercompany arrangements with AEHT, the estimated Target royalty rate was for use of AT's technology only, and not the valuable Amazon brand and website addresses. My analysis of the Merchants@ program, described below, includes the technology and brand and other marketing intangibles transferred under the License and Assignment Agreements. Thus, Deloitte's estimate of an arm's length royalty rate of 10.5% should be a minimum estimate of the rate implied by the Merchants@ program.

¹¹⁷ Deloitte February 1, 2006 memo, page 2.

¹¹⁸ Ibid.

¹¹⁹ Deloitte February 1, 2006 memo, page 7.

¹²⁰ Deloitte made adjustments to Target's implied rates to account for different stages of operation.

2. Merchants@ Analysis

This analysis estimates the value of the IP transferred to AEHT under the License and Assignment Agreements by using the commission rates paid by third parties for use of the same or similar intangibles. To conduct this analysis, I was provided with a list of the top three merchants participating in the Merchants@ program in the UK, Germany, and France during each of the years from 2005 to 2007.¹²¹ I was also provided with total sales of these merchants through the Merchants@ program, and the total commissions and fees retained by Amazon by product category.¹²² Lastly, I was also provided with income statements for Amazon's European Merchants@ business for the years 2005 through 2007.¹²³

I used these data to calculate a weighted average net commission rate (after adjustments) across all product categories, the three markets (UK, Germany, and France), and the years from 2005 to 2007. This analysis is summarized on Table E of Appendix E, and concludes that 12.5% is a reasonable estimate of the commission rate AEHT would pay to AT for use of the IP conveyed under the intercompany agreements. Tables E-1 to E-3 summarize the results for the Merchants@ programs in the UK, German, and French markets, respectively, and Table E-4 shows results for the Luxembourg legal entities that incurred costs in support of the Merchants@ program.¹²⁴

I derive the 12.5% commission rate using the following steps.

¹²¹ Taxpayer response to IDR I-66.

¹²² Ibid.

¹²³ Taxpayer response to IDR I-64.

¹²⁴ Tables E-1 to E-3 analyze the results for two businesses responsible for the Merchants@ business during this three-year period. Amazon International Marketplace ("AIM") ran the business at the beginning of this period and was replaced by Amazon Services Europe ("ASE") by the end of the period. The "A" tables combine the results for these two entities, which are presented in "B" and "C" support tables, respectively (e.g., Table E-1A for the UK market combines the results from Table E-1B for AIM-UK and the results for ASE-UK from Table E-1C).

- 1) I calculate the implied commission rates paid by the top three merchants in each market (UK, Germany, France) over the period 2005-2007. Using the UK market as an example, in 2007 the three top sellers in the UK Merchants@ program were Tower USA, The Book Depository, and Pixmania, which had total sales through the Amazon website of £46.7 million and paid commissions to Amazon of £5.7 million. The weighted average commission rate across the three vendors was 12.3% (Table E-1, line 119).¹²⁵
- 2) I calculate the Merchants@ implied total sales made through Amazon (i.e., the amount on which third party participants paid a commission to Amazon) by dividing total commission revenue by the implied commission rate. For the UK in 2007, I used the 12.3% commission rate to imply total merchant sales of \$758.6 million (Table E-1, line 123).
- 3) The value of the services provided to third party vendors in the Merchants@ program was not equal simply to the gross commission rate calculated in step 1 above. In addition to commission revenue, Amazon (e.g., AIM-UK, ASE-UK) reported other revenues from Merchants@ vendors, and incurred costs in support of the program.

In the standard vendor agreement,¹²⁶ fees payable to Amazon included a commission fee (defined in the agreement as a "referral fee"), and a subscription fee payable monthly or a variable closing fee payable per item sold.¹²⁷ These fees increase the effective commission rates paid by third party vendors to Amazon.

Amazon also incurred costs in support of the program (e.g., Amazon bore the risk of credit card fraud). Since, unlike the third party vendors, AEHT would bear these costs, I made an adjustment to the gross effective commission income to reduce it for the costs to be incurred by AEHT.

Therefore, in order to adjust the commission rate for 1) the *increase* in rate attributable to additional Merchants@ revenues recorded by Amazon, and 2) the *decrease* in rate attributable to costs to be incurred by AEHT in support of the program, I calculated Amazon's (UK, Germany, France) pre-tax income as a percentage of total estimated vendor sales (from step 2).

As an example using the UK market, ASE-UK (the legal entity responsible for the Merchants@ program in the UK in 2007) reported 2007 pretax income of \$102.5 million (Table E-1, line 124), which reflected significant revenues in addition to commissions, including "Closing Fee Revenue" and "Other Service Revenue,"

¹²⁵ As shown on Table E, for all markets I calculate the weighted average commission rate paid by the top three merchants in each market at 13.0% over this three-year period (Table E, line 109).

¹²⁶ See, for example, Amazon Services Europe Business Solutions Agreement, Amazon.co.uk, last updated January 5, 2010.

¹²⁷ See the "Selling on Amazon Fee Schedule" as part of the standard agreement.

and costs incurred by ASE-UK in support of the program (primarily administrative).¹²⁸ ASE-UK's 2007 pre-tax income was equal to 13.5% of estimated Merchants@ vendor sales (Table E-1, line 125). Notice that this pre-tax income was greater than the implied commission rate of 12.3% calculated from the top three merchants. This is because Amazon was entitled, through its agreements with third party merchants, to revenue sources other than commissions, and had only limited expenses.

- 4) I made two additional adjustments to the rates calculated in step 3 above. First, I have applied a 5% profit markup to the value-added costs incurred by the Amazon entities in support of the Merchants@ program, and deducted this profit from pre-tax income.¹²⁹ The 5% markup reflects a routine return on AEHT's costs¹³⁰ and thus reflects an amount which would not be payable to an independent party as part of a commission for use of valuable IP. For the UK market in 2007, the 5% profit markup was equal to about \$1.0 million (Table E-1, line 130), and reduced the net commission rate from 13.5% to 13.4% (see line 132).

Second, I made an adjustment to the third party commission rates for the cost sharing payments AEHT would make under its intercompany CSA. Third party vendors do not incur such costs; therefore, I needed to adjust the commission rate payable by AEHT for this difference. Further, I presume that the cost sharing payments support, among other things, the revenues expected to be earned by AEHT in the Merchants@ program.

As in my DCF model, I use Deloitte's estimated cost sharing payments. Using the UK market as an example, I deduct the 1.9% cost sharing payment estimate from the 13.4% commission rate before cost sharing payments to derive a 2007 net commission rate of 11.4% (Table E-1, line 134).

- 5) I sum the analysis discussed above across all markets to derive a weighted average net commission rate for the years 2005 through 2007. This rate is equal to 12.5%, as shown on Table E, line 121.

In order to compare the 12.5% net commission rate to the \$3,605.1 million value derived from the DCF method, I convert the net commission rate to present value on Table 6. Using the 18% discount rate and the same forecasted revenues, I calculate a

¹²⁸ Table E-1A summarizes the income statements of AIM-UK and ASE-UK over the period 2005-2007.

¹²⁹ Mark-up fees paid by AEHT for various services provided by affiliates ranged from 3% to 5%. I use the highest, 5% rate in this analysis.

¹³⁰ This includes operating expenses and intercompany expenses.

present value of \$6,139.4 million (Table 6, line 608), which is well above the results of my DCF method.¹³¹

Because AEHT differs from the retailers in the Merchants@ program, and because of the imputations necessary to perform my calculations, in my opinion the analysis based on the Merchants@ program is not as reliable as the DCF method in this instance. Therefore I conclude that the results from the DCF method, \$3,605.1 million, is a more reliable measure of the value of the intangibles transferred to AEHT under the License and Assignment Agreements.

However, my analysis of the Merchants@ program demonstrates that arm's length parties placed considerable value on the same types of intangible property that were transferred to AEHT under the License and Assignment Agreements. Based on the commission rates third party vendors paid to Amazon for use of intangibles that were the same or similar to the intangibles transferred to AEHT under the intercompany agreements, and after adjustments to account for differences between the third party vendors and AEHT, I conclude that this Merchants@ program analysis confirms the reasonableness of the value derived from my primary DCF method.

B. Market Value Analysis

As another test of the reasonableness of my primary method, I estimate the value of the transferred IP by apportioning Amazon's implied market value of intangibles, derived from Amazon's total market value, to AEHT based on relative sales levels. In effect, this method is premised on the assumption that the value of Amazon's

¹³¹ In order to account for the period from 12/31/2004 (the date of the intercompany agreements) to 04/30/2006 (the Business Transfer date) when AEHT was not entitled to profits from the EU Website Business, but was responsible for making cost sharing payments, I have deducted from the present value of net commission income AEHT's cost sharing payments in 2005 and through April 30, 2006.

- valuable intangible property is the same for each unit of European sales as it is for Amazon's consolidated operations. To the extent that AT made available to AEHT the full complement of IP used to generate consolidated Amazon revenues, then this method provides a reasonable estimate of the value of intangibles conveyed to AEHT in the License and Assignment Agreements.

This market value method is similar to the well-documented approach in the valuation literature known as a "market multiple approach."¹³² This method is based on the concept that a company's market value of debt and equity can be used to estimate the value of a company's underlying assets, including intangible assets.

A company's balance sheet records assets, liabilities and equity at book value, which typically reflects historic cost. Because of the "balance sheet equation," assets must equal the sum of liabilities and equity. That is,

$$\text{Assets (A)} = \text{Liabilities (L)} + \text{Equity (E)}$$

In most cases, it may be difficult to determine the market value of each individual asset on a company's balance sheet. In fact, many intangible assets (e.g., going concern value, trademarks, installed base of customers, technology) are not even recorded. However, if a company's stock is publicly traded, the market value of the firm's equity is readily available. If the company holds interest-bearing debt, the market values for those instruments may also be available.¹³³ Since the left-hand side of a company's balance sheet must equal the right-hand side, the market value of the firm's

¹³² For an example of a description of this method in the valuation literature, see Damodaran, A. *Damodaran on Valuation*. Hoboken NJ: John Wiley & Sons, Inc., 2006.

¹³³ Depending on the term of the debt and other factors, the book value of debt may provide a reasonable estimate of its market value.

assets must equal the market value of the firm's equity plus the market value of its debt.¹³⁴

Notice that if I assume that the market value of debt is equal to the book value of debt, any market value "premium" must equal the difference between equity market value and equity book value. Assuming further that net working capital and fixed assets are represented on the balance sheet at approximately current fair market value, then this premium plus the value of any booked intangibles (e.g., goodwill) must equal the market value of those intangibles. I use these principles and assumptions in my analysis to value the intangible assets of Amazon. The steps involved in this analysis are outlined below and shown on Table 7.

I estimate the market value of the intangibles transferred under the License and Assignment Agreements, as of December 31, 2004, using the trailing 60-day price for Amazon's stock to calculate its market value of equity. After deducting the book value of equity and adding booked intangibles, I calculate that Amazon's consolidated market value of intangibles in 2004 was \$16,622.8 million.¹³⁵

Next, I apportioned this value to the intangibles conveyed to AEHT. I do so using the ratio of EU website 2004 revenues to consolidated revenues. In 2004, EU website revenues represented 32.5% of total revenues. Revenue is a reasonable basis on which to apportion intangible value to the extent that every unit of European sales captures the same intangible return as Amazon's consolidated sales. In his 1997 letter

¹³⁴ In order to account for non-interest-bearing liabilities, "assets" in this calculation includes all net working capital, which equals current assets less any non-interest-bearing liabilities.

¹³⁵ Market values represent the present value of expected dividends and stock appreciation available to shareholders after corporate level tax. In order to be consistent with my DCF method and Deloitte's unspecified method, I would need to calculate a pre-corporate-level-tax value. For simplicity, however, I have not grossed up the market value to a pre-tax amount.

to shareholders, Jeff Bezos writes, "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." These metrics express themselves in sales levels. In Amazon's industry, where revenue growth is a measure of performance, it is reasonable to assume that value can be reliably estimated based on revenues shares.

The intangible value apportioned to AEHT is \$5,201.9 million.¹³⁶ This value is higher than that derived under my DCF method, \$3,605.1 million. Due to the assumptions necessary to apply this method, I conclude that the result from the analysis of Amazon's market value is not as reliable as the result from the DCF method in this instance. However, in my opinion the analysis of Amazon's market value provides additional support for the reasonableness of the estimate of value that results from my primary DCF method.

IX. Conclusion

I have two main conclusions: (1) In my opinion, the analysis in the Deloitte Report contains a number of fundamental flaws. As a result, its recommended payments for the IP transferred to AEHT by the License and Assignment Agreements are inconsistent with the arm's length standard. (2) I conclude that a reasonable estimate of the value of payments that would be in compliance with the arm's length standard is approximately \$3,605.1 million.

¹³⁶ With a valuation date of December 31, 2004, the allocated intangible value does not account for the fact that AEHT was not entitled to profits from the EU Website Business prior to April 30, 2006 (the Business Transfer date). Consequently, I have deducted from the allocated intangible value the present value of forecasted intangible profits which would be retained by AIS and AIM, and not recorded by AEHT (see lines 711 to 714 of Table 7).

Table 1
Amazon
Luxembourg/AEHT Actual
and Forecasted P&Ls
Figures in \$ millions

<u>Line</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Luxembourg</u>	<u>Actual per External WW Financials [IDR I-43]</u>						
101 Revenue	21.2	166.7	375.6	601.0	969.1	1,559.7	2,252.7
102 Cost of goods sold	16.6	131.8	298.9	469.2	756.9	1,261.7	1,831.4
103 Gross profit	4.5	34.9	76.7	131.7	212.2	298.0	421.2
104 Operating expense 1/	13.1	81.6	143.1	157.7	160.7	204.8	258.6
105 Profit before IDCs	(8.6)	(46.7)	(66.4)	(25.9)	51.5	93.2	162.6
106 IDC expense 2/ 2.9%	0.6	4.9	11.0	17.5	28.3	45.5	65.7
107 Operating profit	(9.2)	(51.5)	(77.4)	(43.5)	23.2	47.7	96.9
108 Cumulative operating profit	(9.2)	(60.8)	(138.1)	(181.6)	(158.4)	(110.7)	(13.8)
<u>Common size</u>							
109 Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
110 Cost of goods sold	78.6%	79.0%	79.6%	78.1%	78.1%	80.9%	81.3%
111 Gross profit	21.4%	21.0%	20.4%	21.9%	21.9%	19.1%	18.7%
112 Operating expense	62.1%	48.9%	38.1%	26.2%	16.6%	13.1%	11.5%
113 Profit before IDCs	-40.7%	-28.0%	-17.7%	-4.3%	5.3%	6.0%	7.2%
114 IDC expense	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
115 Operating profit	-43.6%	-30.9%	-20.6%	-7.2%	2.4%	3.1%	4.3%
<u>Growth rates</u>							
116 Revenue		688.0%	125.2%	60.0%	61.3%	60.9%	44.4%
117 Revenue (5-yr)							
118 Operating profit		458.1%	50.1%	-43.8%	-153.3%	105.8%	103.1%
119 Operating profit (5-yr)							

1/ Includes costs and profit markups paid to UK, DE, and FR.

2/ 1998-2004 estimated to equal ratio of IDC/Revenues for 2005.

Table 1
Amazon
Luxembourg/AEHT Actual
and Forecasted P&Ls
Figures in \$ millions

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Average</u> <u>2005-11</u>	<u>Source</u>
<u>Luxembourg</u>	<u>Forecasts (Deloitte Report, Figure 7)</u>								
101 Revenue	2,953.9	3,857.9	4,907.9	6,248.8	7,832.5	9,665.6	11,927.7	6,770.6	IDR I-43, Deloitte Report Figure 7
102 Cost of goods sold	2,395.8	3,147.7	4,003.4	5,098.3	6,393.2	7,892.2	9,739.2	5,524.3	IDR I-43, Deloitte Report Figure 7
103 Gross profit	558.0	710.1	904.5	1,150.5	1,439.3	1,773.4	2,188.4	1,246.3	Ln 101 - ln102
104 Operating expense 1/	393.9	482.1	581.2	703.5	844.8	1,007.6	1,243.4	750.9	IDR I-43, Deloitte Report Figure 7
105 Profit before IDCs	164.1	228.0	323.3	447.0	594.5	765.8	945.0	495.4	Ln 103 - ln 104
106 IDC expense 2/ 2.9%	86.2	90.5	95.0	99.8	104.8	110.0	115.5	100.3	Ln 101 x ln 106; Forecasts: IDR I-11
107 Operating profit	77.9	137.5	228.3	347.2	489.7	655.8	829.5	395.1	Ln 105 - ln 106
108 Cumulative operating profit	64.1	201.6	429.9	777.1	1,266.8	1,922.6	2,752.1		Sum ln 107
<u>Common size</u>									
109 Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	Ln 101 / ln 101
110 Cost of goods sold	81.1%	81.6%	81.6%	81.6%	81.6%	81.7%	81.7%	81.6%	Ln 102 / ln 101
111 Gross profit	18.9%	18.4%	18.4%	18.4%	18.4%	18.3%	18.3%	18.4%	Ln 103 / ln 101
112 Operating expense	13.3%	12.5%	11.8%	11.3%	10.8%	10.4%	10.4%	11.1%	Ln 104 / ln 101
113 Profit before IDCs	5.6%	5.9%	6.6%	7.2%	7.6%	7.9%	7.9%	7.3%	Ln 105 / ln 101
114 IDC expense	2.9%	2.3%	1.9%	1.6%	1.3%	1.1%	1.0%	1.5%	Ln 106 / ln 101
115 Operating profit	2.6%	3.6%	4.7%	5.6%	6.3%	6.8%	7.0%	5.8%	Ln 107 / ln 101
<u>Growth rates</u>									
116 Revenue	31.1%	30.6%	27.2%	27.3%	25.3%	23.4%	23.4%	<u>7-yr</u>	(Ln 101 curr/prv yr)-1
117 Revenue (5-yr)						26.8%	25.3%	26.9%	(Ln 101 curr/5yr ago)^(1/5)-1
118 Operating profit	-19.6%	76.5%	66.1%	52.1%	41.0%	33.9%	26.5%		(Ln 107 curr/prv yr)-1
119 Operating profit (5-yr)						53.1%	43.3%	35.9%	(Ln 107 curr/5yr ago)^(1/5)-1

1/ Includes costs and profit markups paid to UK, DE, and FR.
2/ 1998-2004 estimated to equal ratio of IDC/Revenues for 2005.

Table 2
Amazon
Implied Return on AENT's Investment in Intangibles
 Figures in \$ millions

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Source</u>
201 Operating profit after IDCs	(86.2)	230.9	228.3	347.2	489.7	655.8	829.5	Table 4, Ln 407
202 PCTs	73.2	82.7	54.9	28.3	11.0	3.3	1.1	Deloitte Report, Figure 14
203 Operating profit after IDCs and PCTs	(159.4)	148.2	173.4	319.0	478.7	652.5	828.4	Ln 201 - Ln 202
204 IRR	128%							

Table 3
Amazon.com
Summary of Deloitte Report
 Figures in \$ millions

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Source</u>
301 IP Profits Other Than Attributable to Assigned IP	105.2	165.1	256.0	374.1	515.3	679.3	855.1	DR, Fig. 12, p. 38
302 IP Profits Attributable to Assigned IP	41.2	41.2	41.2	41.2	41.2	41.2	41.2	DR, Fig. 13, p. 39
303 Total IP Profits	146.4	206.3	297.2	415.3	556.5	720.5	896.3	Line 301 + line 302
304 License PCT Payments	73.2	66.2	47.3	47.3	25.5	10.2	3.1	DR, Fig. 14, p. 39
305 Assignment PCT Payments	-	16.5	7.6	2.8	0.8	0.2	0.1	DR, Fig. 14, p. 39
306 IP Profits Other Than PCT Payments	73.2	123.6	242.2	365.2	530.2	710.1	893.1	Ln 303 - ln 304 - ln 305

Table 4
Amazon
Discounted Cash Flow Analysis
 Figures in \$ millions

Line		2005 3/	2006 4/	2007	2008	2009	2010	2011	Terminal Year	Source	
		<u>Taxpayer estimates</u>									
401	Revenue		2,571.9	4,907.9	6,248.8	7,832.5	9,665.6	11,927.7	12,383.4	Deloitte Report, Figure 7	
402	Cost of goods sold		2,098.5	4,003.4	5,098.3	6,393.2	7,892.2	9,739.2		Deloitte Report, Figure 7	
403	Gross profit		473.4	904.5	1,150.5	1,439.3	1,773.4	2,188.4		Ln 401 - ln 402	
404	Operating expense		152.0	581.2	703.5	844.8	1,007.6	1,243.4		Deloitte Report, Figure 7	
405	IDC expense	86.2	90.5	95.0	99.8	104.8	110.0	115.5		IDR I-11	
406	Total operating expenses	86.2	242.5	676.2	803.2	949.6	1,117.6	1,358.9		Ln 404 + ln 405	
407	AEHT operating profit	(86.2)	230.9	228.3	347.2	489.7	655.8	829.5	861.2	Ln 403 - ln 406	
	Plus:										
408	Depreciation 1/		20.4	17.2	20.3	19.5	23.1	26.2	-	Table A-1, lns 126 & 132	
	Less:										
409	Capital expenditures 1/		(97.0)	(18.5)	(49.6)	(34.0)	(35.3)	(36.6)	-	Table A-1, lns 128 & 131	
410	Increase in net working capital		129.9	73.8	123.1	99.0	116.7	144.0	29.0	-Ln 421	
411	Cash adjustments		53.3	72.5	93.8	84.5	104.6	133.8	29.0	Sum of lns 408 to 410	
412	Cash flow	(86.2)	284.2	300.8	441.0	574.3	760.4	963.1	890.2	Ln 407 + ln 411	
413	Terminal year growth	3.8%								Table B, ln 114	
414	Discount rate	18.0%								Table 5, Ln 514	
415	Period		0.555	1.555	2.555	3.555	4.555	5.555	6.555	Table C	
416	Discount factor		0.912	0.773	0.655	0.555	0.471	0.399	0.338	1/(1 + ln 414) ⁿ ln 415	
417	PV cash flow	3,603.4	(78.6)	219.7	197.1	244.9	270.2	303.2	325.4	2,121.5	Ln 412 x ln 416
	Less:										
418	FMV net assets 2/	(1.8)	[at 12/31/04]								Table A-1, ln 124
419	Implied intangible value		3,605.1								Ln 417 - ln 418
	NOTE:		Actual	At rate of: -6.4%							Table A-1, ln 117
420	Net working capital 1/		(73.0)	(202.8)	(276.7)	(399.7)	(498.8)	(615.5)	(759.5)	(788.6)	Table A-1, ln 116
421	Incr/(decr) in NWC 1/			(129.9)	(73.8)	(123.1)	(99.0)	(116.7)	(144.0)	(29.0)	Ln 420, curr - prvs yr

Lux Ops

422	Revenues	2,953.9	3,857.9	4,907.9	6,248.8	7,832.5	9,665.6	11,927.7		Deloitte Report, Figure 7
423	Total operating expense	393.9	482.1	581.2	703.5	844.8	1,007.6	1,243.4		Deloitte Report, Figure 7
424	Intercompany expense and profit mark	299.9	367.7	444.1	537.9	646.0	770.4	950.7		IDR I-11
425	Lux Ops "value-added" costs	94.0	114.5	137.0	165.5	198.8	237.2	292.8		Ln 423 - ln 424
426	Value-added as % of revenues	3.2%	3.0%	2.8%	2.6%	2.5%	2.5%	2.5%		Ln 425 / ln 422

- 1/ 2005 change in NWC assumed to be equal to zero. 2009 and following years based on AEHT, Form 5471 data, 2007-08. See Table A-1.
 2/ FMV net assets for Amazon Europe Holding Technologies (AEHT).
 3/ AEHT only activity in 2005 was to make cost share payments.
 4/ AEHT made 100% of cost share payments, and recorded income after the business transfer date of April 30.

Table 4a
Example (using Luxembourg 2008 data)
Accrual to Cash Basis Income Statement
Figures in \$ millions

Line	Forecasted Accrual Basis 2008	 Incr in Accts rec	<c> Incr in Inventory	Adjustments			<g> Cash Basis 2008	Source
				<d> Decr in Other assets	<e> Incr in Accts pay	<f> Decr in Other NIBL		
Profit & Loss statement								
401	Revenue	6,248.8	(125.7)				6,123.1	<a>: Table 4, Ln 401
402	Cost of goods sold	5,098.3		68.4		(424.1)	4,742.6	<a>: Table 4, Ln 402
403	Gross profit	1,150.5					1,380.5	<a>: Table 4, Ln 403
404	Operating expense	703.5			(1,080.1)		720.3	<a>: Table 4, Ln 404
405	IDC expense	99.8				1,096.9	99.8	<a>: Table 4, Ln 405
406	Total operating expenses	803.2					820.1	<a>: Table 4, Ln 406
407	AEHT operating profit	347.2					560.4	<a>: Table 4, Ln 407
408	Operating margin	5.6%					9.2%	Ln 407 / ln 401
409	Investment in operating cash						(90.1)	-Ln 414
410	Plus: Depreciation						20.3	Table 4, Ln 408
411	Less: Capital expenditures						(49.6)	Table 4, Ln 409
412	Free cash flow						441.0	Ln 407 + Sum (Lns 409 to 411)
413	As % of revenue						7.2%	Ln 412 / ln 401

Net working capital accounts	Actual 1/		Change	Source	
	2007	2008			
414	Operating cash	326.7	416.8	90.1	Table A-1, Ln 105
415	Net accounts receivable	196.9	322.6	125.7	Table A-1, Ln 106
416	Inventory	322.7	391.1	68.4	Table A-1, Ln 107
417	Other current assets	1,372.2	719.3		Table A-1, Ln 108
418	Less: Mktable sec	(153.6)	(575.7)		Table A-1, Ln 109
419	Less: Interest rec	(3.4)	(8.4)		Table A-1, Ln 110
420	Other oper current assets	1,215.2	135.2	(1,080.1)	Sum of Lns 417 to 419
421	Total operating current assets	2,061.6	1,265.7		Sum of Lns 414 to 419
422	Accounts payable	912.9	1,337.0	424.1	Table A-1, Ln 112
423	Other NIBL	1,427.8	335.1		Table A-1, Ln 113
424	Less: Debt	(2.5)	(6.6)		Table A-1, Ln 114
425	Other NIBL	1,425.3	328.4	(1,096.9)	Sum of Lns 423 to 424
426	Total NIBL	2,338.2	1,665.4		Sum of Lns 422 to 424
427	Net working capital	(276.7)	(399.7)	(123.1)	Ln 421 - ln 426

1/ Forecasted AEHT/LuxOps balance sheets were not available.

Table 5
Amazon
Cost of Capital Estimate
As of December 31, 2004
\$ figures in millions

<u>Line</u>		<u>Value</u>	<u>Source</u>
501	Market value of equity	\$18,072.6	Compustat [MKVALQ]
502	Interest-bearing debt 1/	\$1,849.8	Compustat [DLTTQ] & [DLCQ]
503	Total capital	\$19,922.4	Ln 501 + Ln 502
504	Equity / total capital	90.7%	Ln 501 / Ln 503
505	Debt / total capital	9.3%	Ln 502 / Ln 503
	<i>Cost of Equity (CAPM)</i>		
506	Risk-free rate 2/	5.0%	Bloomberg
507	Equity risk premium 3/	7.2%	Ibbotson SBBt
508	Adjusted levered beta 4/	2.004	Bloomberg
509	Cost of equity	19.3%	Ln 506 + (Ln 507 x Ln 508)
	<i>Cost of Debt</i>		
510	Estimated cost of debt 5/	5.8%	Bloomberg
511	Tax rate	35.0%	Assumption
512	After-tax cost of debt	3.8%	Ln 510 x (1 - Ln 511)
513	WACC	17.9%	(Ln 504 x Ln 509) + (Ln 505 x Ln 512)
514	Rounded WACC	18.0%	Ln 513, rounded to 100 basis points

- 1/ DLTTQ = Total long-term debt, DLCQ = Debt in current liabilities.
2/ 20-year U.S. treasury bonds yield, as of 12/31/04.
3/ 2004 Valuation Yearbook, arithmetic mean for 1926-2004 long-horizon S&P 500 premium.
4/ Monthly Adjusted Levered Betas from Bloomberg, Monthly 12/31/99-12/31/04.
5/ Corporate bonds, seasoned issues, all industries, yields Aaa to Baa, 12/31/04.

Table 6
Amazon
Intangible Value Implied by Merchants @ Commission Rates
Figures in \$ millions

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Terminal</u> <u>Year</u>	<u>Source</u>	
		<u>Taxpayer estimates</u>									
601	Revenue	3.8%	2,571.9	4,907.9	6,248.8	7,832.5	9,665.6	11,927.7	12,383.4	Deloitte	
602	Merchants @ Commission	12.5%	322.6	615.7	783.9	982.6	1,212.5	1,496.3	1,553.4	Ln 1 x 12.5%	
603	Period		0.555	1.555	2.555	3.555	4.555	5.555	6.555	Table C	
604	Discount Factor	18.0%	0.912	0.773	0.655	0.555	0.471	0.399	0.338	Table 5	
605	PV net commissions	6,241.4	-	249.4	403.4	435.2	462.3	483.5	505.6	3,702.0	Ln 602 x Ln 604
	<i>Adjustments</i>										
606	IDC Expenses prior to 4/30/06		86.2	30.2							Table 4, ln 405
607	PV IDC expenses	102.0	78.6	23.3							Ln 604 x Ln 606
608	PV net commissions less IDC expenses		6,139.4								Ln 605 - Ln 607

Table 7
Amazon
Market Value Analysis
 Figures in \$ millions

<u>Line</u>	<u>Item</u>	<u>Dec 04</u>		<u>Source 2/</u>
701	MV equity	16,251.2		Footnote 1
702	BV equity	(227.2)		CEQ
703	Intangibles- other	5.4		INTANO
704	Goodwill	139.0		GDWL
705	Total booked intangibles	144.4		Ln 703 + Ln 704
706	MV intangible assets	<u>16,622.8</u>		Ln 701 - Ln 702 + Ln 705
	<i>Allocation to European Markets</i>			
	<u>Revenue</u>			
707	Amazon consolidated	6,921.1		Table A-2
708	AEHT/LuxOps	2,252.7		Table 1
709	AEHT/LuxOps share	32.5%		Ln 708 / ln 707
710	Implied intangible value attributable to European markets	<u>5,410.4</u>		Ln 706 x Ln 709
	<i>Adjustments</i>			
711	Forecasted Operating Profits Retained by AIS/AIM	164.1	76.0	Table 1, ln 105
712	Discount Factor	0.912	0.773	Table 4, ln 416
713	PV AIS/AIM Retained Op Profits	208.4	149.7	58.7 Ln 711 x Ln 712
714	Adjusted intangible value	<u>5,201.9</u>		Ln 710 - Ln 713

1/ Equal to average closing share price for Nov 1 2004 to Dec 31 2004 period multiplied by the number of common shares outstanding as of Dec 31 2004.

2/ All CAPS sources are Compustat mnemonics

Appendix A
Cash Adjustments Estimates

Appendix A Cash Adjustments Estimates

This Appendix describes our assumptions regarding AEHT/LuxOps forecasted depreciation expense, capital expenditures, and net working capital. These assumptions are necessary to estimate the AEHT/LuxOps cash flows used in our DCF analysis.

We use data available on AEHT's tax returns and Amazon's publicly available consolidated results to derive our assumptions. Table A-1 presents certain AEHT/LuxOps income statement and balance sheet data from Amazon's Forms 5471 for the years 2004 to 2008. Table A-2 presents Amazon's consolidated results for the years 1995 to 2009.

Depreciation Expense

The forecasted income statements provided in the Deloitte report do not separately show depreciation expense. Depreciation is a non-cash expense which is added back to operating profits in a DCF analysis.

In our DCF analysis presented in Table 4, we use actual AEHT/LuxOps depreciation expenses for the years 2006 to 2008. Line 126 of Table A-1 shows AEHT/LuxOps depreciation expense from the Form 5471.

For years after 2008 we assume depreciation expenses are equal to 25% of property plant and equipment ("PPE") at the beginning of year ("BoY"). This

assumption is based on the average ratio of depreciation expense to BoY PPE of 24.2% for the years 2007¹ and 2008. See line 129 of Table A-1.

Amazon's consolidated Amazon financial data confirm that this is a reasonable assumption. Line 216 of Table A-2 computes the consolidated operations' ratio of depreciation expense to net PPE-BoY, which was about 28% for the period 2000-04, and 32% for 2002-04. These ratios support our 25% depreciation rate assumption.

Capital Expenditures

Capital expenditures data are not directly available on AEHTs 5471s. However, we are able to indirectly estimate AEHT/LuxOps capital expenditures for 2006-08 using net PPE and depreciation expense data from the 5471s. These calculations are shown on lines 125 to 128 of Table A-1.

For years beyond 2008, we assume AEHT/LuxOps capital expenditures are equal to \$34 million, the average of our capital expenditure estimate for 2007 and 2008 (see Table A-1, line 128).

Net Working Capital

As discussed in our report, Amazon's negative operating cycle results in a significant source of cash flow. The operating cycle is the number of days of sales in inventory plus the number of days of sales in accounts receivable minus accounts payables days.

¹ 2007 was the first full year of operations in AEHT/LuxOps.

An operating cycle is a concept similar to net working capital which is commonly taken into account as cash adjustments for DCF analyses. In our analysis, we treat net working capital as equal to current operating assets less non-interest bearing liabilities.² Amazon's negative operating cycle creates negative net working capital which, in turn, is a source of cash flow to Amazon.

Forecasts of net working capital were not included in the Deloitte report. Instead, we use AEHT/LuxOps' actual net working capital data for the years 2006 to 2008 as provided in AEHTs 5471s (see lines 105 to 117 of Table A-1).

For years beyond 2008, we estimate net working capital based on AEHT/LuxOps' ratio of net working capital to sales for 2007 and 2008. As shown on line 117 of Table A-1, on average for 2007 to 2008, AEHT/LuxOps held negative working capital equal to -6.4% of sales. We apply this -6.4% ratio to the projected sales data provided in the Deloitte report.

On lines 226 to 237 of Table A-2, we calculate Amazon's consolidated ratio of net working capital to sales of -10.8% for the period 2000-04 and -7.9% for 2002-04. These ratios are similar to and support an assumption for forecasted net working capital equal to -6.4% of sales.

² We have included in current assets "operating cash" equal to 7% of revenues. Amazon holds cash balances greater than 7% of revenues; however, much of these cash balances bear interest (e.g., "cash equivalents" such as commercial paper) and should be excluded from our discounted cash flow analysis. The present value derived under a DCF represents the value of the operating assets of a business. Non-operating assets, such as interest-yielding assets, should be valued separately and added to the present value to derive a firm's total value. See, for example, Damadoran, Aswath, *Damadoran on Valuation*, Second Edition (2006: Wiley Finance), pages 334-339. Table A-3 shows Amazon's consolidated cash balances separated into cash only balances and cash equivalents.

Table A-1
Amazon Europe Holding Technologies (AEHT)
Summary Data from Form 5471, Actual 2004-2008
Figures in \$ millions

Line		Actual					Average 2007-08	Source			
		2004	2005	2006 1/	2007	2008					
101	Revenue	n.a.	40.0	2,660.0	4,667.4	5,954.8	5,311.1	AEHT 5471			
102	Cash	5.9	14.8	582.0	855.2	1,018.9		AEHT 5471			
103	Operating cash 2/	7.0%	5.9	14.8	186.2	326.7	416.8	Ln 102 or 7.0% x ln 101			
104	Excess cash		0.0	0.0	395.8	528.5	602.1	Ln 102 - ln 103			
Net Working Capital											
105	Operating cash		5.9	14.8	186.2	326.7	416.8				
106	Net accounts receivable		3.9	14.3	110.1	196.9	322.6	AEHT 5471			
107	Inventory		0.0	0.0	233.8	322.7	391.1	AEHT 5471			
108	Other current assets		12.0	82.2	2,837.1	1,372.2	719.3	AEHT 5471			
109	Less: Mktable sec		-11.6	-34.4	-125.6	-153.6	-575.7	AEHT 5471			
110	Less: Interest rec		0.0	-0.1	-4.3	-3.4	-8.4	AEHT 5471			
111	Total operating current assets		10.1	76.8	3,237.4	2,061.6	1,265.7	Sum of lns 105 to 110			
112	Accounts payable		7.9	19.4	539.4	912.9	1,337.0	AEHT 5471			
113	Other NIBL		15.6	130.3	2,909.9	1,427.8	335.1	AEHT 5471			
114	Less: Debt		0.0	0.0	-9.1	-2.5	-6.6	AEHT 5471			
115	Total NIBL		23.5	149.7	3,440.2	2,338.2	1,665.4	Sum of lns 112 to 114			
116	Net working capital		-13.4	-73.0	-202.8	-276.7	-399.7	Ln 111 - ln 115			
117	As % of revenues				n.a.	-5.9%	-6.7%	Ln 116 / ln 101			
Net Operating Assets											
118	Net PPE		0.0	0.1	76.8	78.1	107.3	AEHT 5471			
119	Other operating assets		0.0	0.0	1.0	1.6	6.5	AEHT 5471			
120	Net operating assets (NOA)		-13.4	-72.8	-125.1	-197.0	-285.9	Ln 118 + ln 118 + ln 119			
Non-operating assets:											
121	Excess cash		0.0	0.0	395.8	528.5	602.1	Ln 104			
122	Marketable securities		11.6	34.4	125.6	153.6	575.7	AEHT 5471			
123	Interest receivable		0.0	0.1	4.3	3.4	8.4	AEHT 5471			
124	NOA including cash & equiv		-1.8	-38.4	396.3	485.1	891.9	Ln 120 + ln 121 + ln 122			
Capital Expenditures and Depreciation											
							Average				
							2007-08				
125	Implied cap ex:										
125	Net PPE - EoY		0.1	76.8	78.1	107.3	92.7	AEHT 5471			
126	Plus: Depr		0.0	20.4	17.2	20.3	18.8	AEHT 5471			
127	Less: Net PPE - BoY		0.0	-0.1	-76.8	-78.1	-77.4	Ln 118, prvs yr			
128	Implied cap ex		0.1	97.0	18.5	49.6	34.0	Sum of lns 125 to 127			
129	Depr as % of PPE (BoY)		n.a.	15179.7%	22.4%	26.0%	24.2%	Ln 126 / -ln 127			
Estimates											
		2009	2010	2011	2012	2013	2014	2015	2016		
130	Net PPE - BoY		78.1	92.6	104.7	115.2	124.4	132.8	140.6	148.1	Ln 133, prvs yr
131	Plus: Cap ex	3.8%	34.0	35.3	36.6	38.0	39.5	41.0	42.6	44.2	Growth rate: Table B
132	Less: Depr	25.0%	-19.5	-23.1	-26.2	-28.8	-31.1	-33.2	-35.2	-37.0	-Ln 130 * ln 132
133	Net PPE - EoY		92.6	104.7	115.2	124.4	132.8	140.6	148.1	155.2	Sum of lns 130 to 132

1/ Includes eight months of EU website-related revenue. Operation of the EU websites remained with AIS and AIM prior to the business transfer date of April 30, 2006.

2/ Assumed to equal 7.0% of revenue. See Table A-3, ln 305.

Table A-2
Amazon
Consolidated Financial Data
Actual 1995-2009
Figures in \$ millions

Line	Actual							
	1995	1996	1997	1998	1999	2000	2001	2002
201 Revenues	0.511	15.746	147.758	609.996	1,639.839	2,761.983	3,122.433	3,932.936
202 Cost of goods sold	0.390	12.001	115.557	466.463	1,312.388	2,021.746	2,239.166	2,858.044
203 Gross profit	0.121	3.745	32.201	143.533	327.451	740.237	883.267	1,074.892
204 SG&A	0.406	9.438	58.022	195.629	673.634	997.574	848.197	881.443
205 Depreciation	0.019	0.286	3.388	9.692	36.806	84.460	84.709	82.274
206 Amortization	-	-	-	42.600	214.694	321.772	181.033	5.478
207 Depr and amort	0.019	0.286	3.388	52.292	251.500	406.232	265.742	87.752
208 Total operating exp	0.425	9.724	61.410	247.921	925.134	1,403.806	1,113.939	969.195
209 Operating profit	(0.304)	(5.979)	(29.209)	(104.388)	(597.683)	(663.569)	(230.672)	105.697
210 Cap expenditures	0.052	1.214	7.221	28.333	287.055	134.758	50.321	39.163
211 Stock option cost (after-tax)	-	0.031	4.953	6.973	311.957	309.039	395.808	79.156
212 Intangibles	-	-	-	-	730.144	255.325	79.749	74.271
213 Revenue growth		2981.4%	838.4%	312.8%	168.8%	68.4%	13.1%	26.0%
214 Operating profit growth		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
215 Net PPE - BoY		0.057	0.985	9.265	29.791	317.613	366.416	271.751
216 Depr as % of PPE (BoY)		501.8%	344.0%	104.6%	123.5%	26.6%	23.1%	30.3%
<u>Common size</u>								
217 Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
218 Cost of goods sold	76.3%	76.2%	78.2%	76.5%	80.0%	73.2%	71.7%	72.7%
219 Gross profit	23.7%	23.8%	21.8%	23.5%	20.0%	26.8%	28.3%	27.3%
220 SG&A	79.5%	59.9%	39.3%	32.1%	41.1%	36.1%	27.2%	22.4%
221 Depreciation	3.7%	1.8%	2.3%	1.6%	2.2%	3.1%	2.7%	2.1%
222 Amortization	0.0%	0.0%	0.0%	7.0%	13.1%	11.7%	5.8%	0.1%
223 Depr and amort	3.7%	1.8%	2.3%	8.6%	15.3%	14.7%	8.5%	2.2%
224 Total operating expenses	83.2%	61.8%	41.6%	40.6%	56.4%	50.8%	35.7%	24.6%
225 Operating profit	-59.5%	-38.0%	-19.8%	-17.1%	-36.4%	-24.0%	-7.4%	2.7%
<u>Net Working Capital</u>								
226 Operating cash	-	6.248	109.810	25.561	116.962	141.922	149.968	302.964
227 Net receivables	-	-	-	-	-	-	-	-
228 Inventories	0.017	0.571	8.971	29.501	220.646	174.563	143.722	202.425
229 Prepaid expenses	-	-	-	-	-	-	-	-
230 Other current assets	0.014	0.321	3.298	21.308	85.344	86.044	67.613	112.282
231 Current assets	0.031	7.140	122.079	76.370	422.952	402.529	361.303	617.671
232 Accounts payable	0.099	2.852	32.697	113.273	463.026	485.383	444.748	618.128
233 Accrued expenses	-	-	-	-	-	-	-	-
234 Other current liabilities	0.008	2.018	9.621	47.618	261.587	472.996	461.674	434.512
235 Non-int bearing liabilities	0.107	4.870	42.318	160.891	724.613	958.379	906.422	1,052.640
236 Net working capital	(0.076)	2.270	79.761	(84.521)	(301.661)	(555.850)	(545.119)	(434.969)
237 As % of revenues		14.4%	54.0%	-13.9%	-18.4%	-20.1%	-17.5%	-11.1%

Table A-2
Amazon
Consolidated Financial Data
Actual 1995-2009
Figures in \$ millions

Line	Actual							
	2003	2004	2005	2006	2007	2008	2009	
201 Revenues	5,263.699	6,921.1	8,490.0	10,711.0	14,835.0	19,166.0	24,509.0	
202 Cost of goods sold	3,930.973	5,244.1	6,338.0	8,055.0	11,224.0	14,585.0	18,594.0	
203 Gross profit	1,332.726	1,677.0	2,152.0	2,656.0	3,811.0	4,581.0	5,915.0	
204 SG&A	983.681	1,169.5	1,569.0	2,037.0	2,685.0	3,452.0	4,300.0	
205 Depreciation	75.558	75.1	113.0	200.0	258.0	311.0	384.0	
206 Amortization	2.752	1.0	5.0	10.0	13.0	29.0	48.0	
207 Depr and amort	78.310	76.1	118.0	210.0	271.0	340.0	432.0	
208 Total operating exp	1,061.991	1,245.6	1,687.0	2,247.0	2,956.0	3,792.0	4,732.0	
209 Operating profit	270.735	431.4	465.0	409.0	655.0	789.0	1,183.0	
210 Cap expenditures	45.963	89.1	204.0	216.0	224.0	333.0	373.0	
211 Stock option cost (after-tax)	6.774	23.5	-	-	-	-	-	
212 Intangibles	69.639	144.4	170.0	216.0	276.0	598.0	1,801.0	
213 Revenue growth	33.8%	31.5%	22.7%	26.2%	38.5%	29.2%	27.9%	
214 Operating profit growth	156.1%	59.3%	7.8%	-12.0%	60.1%	20.5%	49.9%	
215 Net PPE - BoY	239.398	224.3	246.2	348.0	457.0	543.0	854.0	
216 Depr as % of PPE (BoY)	31.6%	33.5%	45.9%	57.5%	56.5%	57.3%	45.0%	
<u>Common size</u>								
217 Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
218 Cost of goods sold	74.7%	75.8%	74.7%	75.2%	75.7%	76.1%	75.9%	
219 Gross profit	25.3%	24.2%	25.3%	24.8%	24.3%	23.9%	24.1%	
220 SG&A	18.7%	16.9%	18.5%	19.0%	18.1%	18.0%	17.5%	
221 Depreciation	1.4%	1.1%	1.3%	1.9%	1.7%	1.6%	1.6%	
222 Amortization	0.1%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	
223 Depr and amort	1.5%	1.1%	1.4%	2.0%	1.8%	1.8%	1.8%	
224 Total operating expenses	20.2%	18.0%	19.9%	21.0%	19.9%	19.8%	19.3%	
225 Operating profit	5.1%	6.2%	5.5%	3.8%	4.4%	4.1%	4.8%	
<u>Net Working Capital</u>								
226 Operating cash	427.306	418.000	115.000	118.000	813.000	355.000	391.000	
227 Net receivables	-	-	-	-	-	711.000	836.000	
228 Inventories	293.917	479.709	566.000	877.000	1,200.000	1,399.000	2,171.000	
229 Prepaid expenses	-	12.000	15.000	17.000	23.000	-	-	
230 Other current assets	132.069	268.488	348.000	460.000	829.000	320.000	424.000	
231 Current assets	853.292	1,178.197	1,044.000	1,472.000	2,865.000	2,785.000	3,822.000	
232 Accounts payable	819.811	1,141.733	1,366.000	1,818.000	2,795.000	3,594.000	5,605.000	
233 Accrued expenses	-	-	-	-	-	-	-	
234 Other current liabilities	428.674	476.286	560.000	665.000	876.000	1,021.000	1,618.000	
235 Non-int bearing liabilities	1,248.485	1,618.019	1,926.000	2,481.000	3,671.000	4,615.000	7,223.000	
236 Net working capital	(395.193)	(439.822)	(882.000)	(1,009.000)	(806.000)	(1,830.000)	(3,401.000)	
237 As % of revenues	-7.5%	-6.4%	-10.4%	-9.4%	-5.4%	-9.5%	-13.9%	

Table A-2
Amazon
Consolidated Financial Data
Actual 1995-2009
Figures in \$ millions

<u>Line</u>	<u>Total 2000-04</u>	<u>Total 2002-04</u>	<u>Source</u>
201 Revenues	22,002.2	16,117.8	Compustat NA
202 Cost of goods sold			Compustat NA
203 Gross profit			Ln 201 - ln 202
204 SG&A			Compustat NA
205 Depreciation	402.1	232.9	Ln 207 - ln 206
206 Amortization			Compustat NA
207 Depr and amort			Compustat NA
208 Total operating exp			Ln 204 + ln 207
209 Operating profit	(86.4)	807.8	Ln 203 - ln 208
210 Cap expenditures			Compustat NA
211 Stock option cost (after-tax)			Compustat NA
212 Intangibles			Compustat NA
213 Revenue growth	33.4%	30.4%	(Ln 201, curr-priv yr)-1
214 Operating profit growth	n.a.	n.a.	(Ln 209, curr-priv yr)-1
215 Net PPE - BoY	1,419.5	735.4	Compustat NA
216 Depr as % of PPE (BoY)	28.3%	31.7%	lns 205 / ln 215
<u>Common size</u>			
217 Revenues			Ln 201 / ln 201
218 Cost of goods sold			Ln 202 / ln 201
219 Gross profit			Ln 203 / ln 201
220 SG&A			Ln 204 / ln 201
221 Depreciation			Ln 205 / ln 201
222 Amortization			Ln 206 / ln 201
223 Depr and amort			Ln 207 / ln 201
224 Total operating expenses			Ln 208 / ln 201
225 Operating profit	-0.4%	5.0%	Ln 209 / ln 201
<u>Net Working Capital</u>			
226 Operating cash			Table A-3, ln 302
227 Net receivables			Compustat NA
228 Inventories			Compustat NA
229 Prepaid expenses			Compustat NA
230 Other current assets			Compustat NA
231 Current assets			Sum of lns 226 to 230
232 Accounts payable			Compustat NA
233 Accrued expenses			Compustat NA
234 Other current liabilities			Compustat NA
235 Non-int bearing liabilities			Sum of lns 232 to 234
236 Net working capital	(2,370.953)	(1,269.984)	Ln 231 - ln 235
237 As % of revenues	-10.8%	-7.9%	Ln 236 / ln 201

Table A-3
Amazon.com, Inc.

Figures in \$ millions

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total 2000-04	Total 2002-04	Source
<u>Form 10-K Data</u>																	
301 Revenues	15.7	147.8	609.8	1,839.8	2,762.0	3,122.4	3,932.9	5,263.7	6,921.0	8,490.0	10,711.0	14,835.0	19,166.0	24,509.0	22,002.1	16,117.6	Form 10-K
302 Cash only	6.2	109.8	25.6	117.0	141.9	150.0	303.0	427.3	418.0	115.0	118.0	813.0	355.0	391.0	1,440.2	1,148.3	Form 10-K
Commercial paper & short term obligations	n.a.	n.a.	114.2	16.3	680.5	390.3	435.3	675.0	1,361.0	1,885.0	1,901.0	2,496.0	3,680.0	6,281.0	3,542.1	2,471.3	Form 10-K
304 Total cash & equivalents	6.2	109.8	139.7	133.3	822.4	540.3	738.3	1,102.3	1,779.0	2,000.0	2,019.0	3,309.0	4,035.0	6,672.0	4,982.2	3,619.5	Ln 302 + ln 303
305 Cash only as % of revenue	39.7%	74.3%	4.2%	7.1%	5.1%	4.8%	7.7%	8.1%	6.0%	1.4%	1.1%	5.5%	1.9%	1.6%	6.5%	7.1%	Ln 302 / ln 301
Total cash & equivalents as a % of revenue	39.7%	74.3%	22.9%	8.1%	29.8%	17.3%	18.8%	20.9%	25.7%	23.6%	18.8%	22.3%	21.1%	27.2%	22.6%	22.5%	Ln 304 / ln 301
<u>CIBC World Markets 1/</u>																	
											2006	2007 E	2008 E				
307 Revenues											10,711.0	14,151.0	17,696.0				Footnote 1
308 Total cash & equivalents											2,019.0	2,391.0	3,262.0				Footnote 1
309 Operating cash											319.0	415.0	514.0				Footnote 1
310 Op. Cash / Revenues											3.0%	2.9%	2.9%				Ln 309 / ln 307
<u>Bear Stearns 2/</u>																	
						2001	2002										
311 Revenues						3,122.0	3,933.0										Footnote 2
312 Total cash & equivalents						996.6	1,301.0										Footnote 2
313 Operating cash						-	-										Footnote 2
314 Op. Cash / Revenues						0.0%	0.0%										Ln 313 / ln 311

1/ M. Davies. Amazon.com: Assuming Coverage; Amazonian Reach Across Categories, Geographies. September 24, 2007. CIBC World Markets.

2/ R. Peck. Amazon.com, Inc: The Powerhouse of the e-Commerce Jungle. January 23, 2004. Bear, Stearns & Co. Inc.

Appendix B
Terminal Year Growth Rate Estimate

Table B
2004 Forecast of Long Term
Nominal GDP Growth Rate

<u>Line</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-14</u>	<u>Source</u>
Germany									
101 Real GDP Growth	1.9%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	Consensus Forecasts /1/
102 CPI Growth	1.7%	1.4%	1.4%	1.5%	1.6%	1.6%	1.6%	1.6%	Consensus Forecasts /1/
103 Nom. GDP Growth	3.6%	3.0%	3.0%	3.1%	3.2%	3.2%	3.2%	3.1%	$(1 + \ln 101) \times (1 + \ln 102) - 1$
France									
104 Real GDP Growth	2.5%	2.2%	2.2%	2.3%	2.3%	2.2%	2.2%	2.2%	Consensus Forecasts /1/
105 CPI Growth	2.2%	1.8%	1.7%	1.9%	1.9%	1.7%	1.8%	1.8%	Consensus Forecasts /1/
106 Nom. GDP Growth	4.8%	4.0%	3.9%	4.2%	4.2%	3.9%	4.0%	4.0%	$(1 + \ln 104) \times (1 + \ln 105) - 1$
United Kingdom									
107 Real GDP Growth	3.3%	2.6%	2.0%	2.0%	2.1%	2.3%	2.2%	2.2%	Consensus Forecasts /1/
108 CPI Growth	1.4%	1.8%	2.0%	2.0%	1.9%	2.0%	2.1%	2.1%	Consensus Forecasts /1/
109 Nom. GDP Growth	4.7%	4.4%	4.0%	4.0%	4.0%	4.3%	4.3%	4.3%	$(1 + \ln 107) \times (1 + \ln 108) - 1$
Weighted Nom. GDP Growth Rate									
Expected sales:									
110 Germany							41.0%		Deloitte report, pg 27
111 France							8.0%		Deloitte report, pg 27
112 UK							51.0%		Deloitte report, pg 27
113 Total							100.0%		
114 Weighted Nom. GDP Growth							3.8%		$\ln 103 \times \ln 111 + \ln 106 \times \ln 112 + \ln 109 \times \ln 113$

/1/ Growth rates for real GDP and CPI as well as 2002 levels of nominal GDP are from Consensus Forecasts (G7 and Western Europe) October 2004 edition published by Consensus Economics Inc.

CONSENSUS FORECASTS

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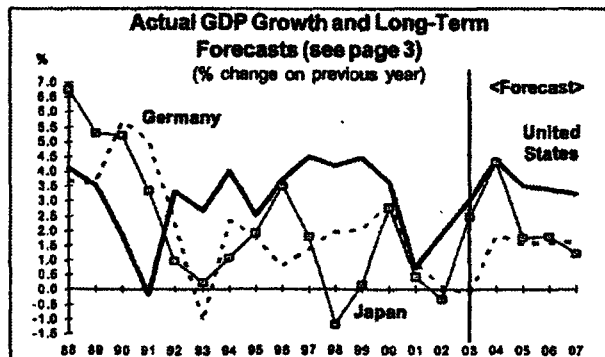
**Survey Date
October 11, 2004**

Every month, Consensus Economics surveys over 240 prominent financial and economic forecasters for their estimates of a range of variables including future growth, inflation, interest rates and exchange rates. More than 20 countries are covered and the reference data, together with analysis and polls on topical issues, is rushed to subscribers by express mail and e-mail.

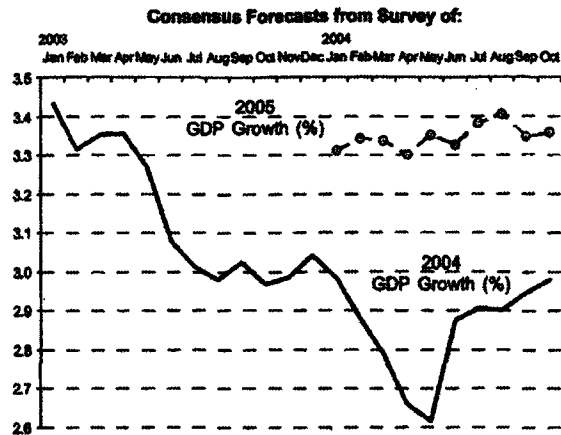
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Survey Highlights

- ◆ The Federal Reserve in the United States raised interest rates by 25 basis points for the third time this year, taking the fed funds rate to 1.75%, amid signs that activity had rebounded in recent months after a relatively weak second quarter. Forecasts for GDP growth in 2004 have, as a result, risen slightly. However, payroll data for September continues to indicate that the pace of job creation is sluggish, and oil prices remain a potential threat to the outlook.
- ◆ In the United Kingdom, macroeconomic forecasts have remained upbeat, despite mounting evidence that a series of interest rates hikes from the Bank of England since November last year are beginning to rein in activity.
- ◆ A number of European governments have in the past month released their respective 2005 budgets, with initiatives aimed at reducing large budget deficits prominent in France and Italy. In the Netherlands, proposals include a reduction in corporate tax and measures designed to boost jobs, including cuts to unemployment benefit.
- ◆ This month's special survey is a repeat of our regular compilation of Long-Term Forecasts (pages 3, 28, and 29).

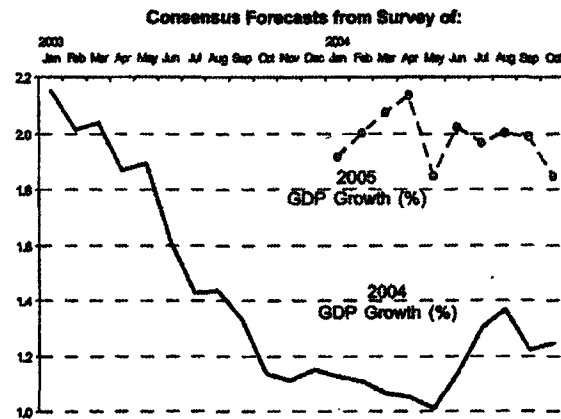


In Canada (page 16), forecasts for GDP growth in both 2004 and 2005 have edged upwards this month in the face of a mildly disappointing July GDP release. Despite this, however, other reports point to firmer economic fundamentals and this is helping to support next year's growth outlook. Job creation continues apace, which bodes well for personal spending. Moreover, industrial activity has been strengthening, with export revenues lifted by surging oil, energy and commodity prices as well as by US demand. Manufacturing orders and shipments are showing steady growth as well, and projections for industrial production in 2005 have been upgraded. Strong oil prices, coupled with tightening output capacity in the economy, are also helping to buoy next year's consumer price expectations, despite a recent dip in core inflation. The Bank of Canada is likely to raise rates again as a result.



* % change on previous year	Historical Data			2004 Consensus Forecast	Consensus Forecasts for 2005 from Survey of					
	2001	2002	2003		May '04	June	July	Aug	Sep	Oct
Gross Domestic Product*	1.8	3.4	2.0	3.0	3.4	3.3	3.4	3.4	3.3	3.4
Industrial Production*	-2.3	2.4	0.3	3.4	3.6	3.7	3.5	3.6	3.6	3.7
Consumer Prices*	2.5	2.3	2.8	1.9	1.8	1.9	2.0	2.0	2.0	2.1

In the Netherlands (page 20), forecasts for GDP growth, private consumption and manufacturing production in 2005 have been downgraded this month as pessimism over the current pace of activity – both domestic and global – increases. The recovery from last year's recession – the country's first in two decades – continues to be modest in nature, despite strong export growth, as domestic demand remains lacklustre. In addition, the industrial sector has not benefited as much from the rise in exports as had been hoped, although our panel expects an acceleration in manufacturing production to occur next year. In response to the weak economic climate, the government, in its 2005 budget, plans to stimulate activity through a series of supply side reforms which include reducing unemployment benefit and cutting corporation tax.



* % change on previous year	Historical Data			2004 Consensus Forecast	Consensus Forecasts for 2005 from Survey of					
	2001	2002	2003		May '04	June	July	Aug	Sep	Oct
Gross Domestic Product*	1.4	0.6	-0.9	1.2	1.8	2.0	2.0	2.0	2.0	1.8
Private Consumption*	1.4	1.3	-0.9	0.4	1.6	1.7	1.6	1.6	1.5	1.3
Manufacturing Production*	-0.7	-0.8	-2.8	0.8	2.6	2.6	2.7	2.7	2.6	2.5

NOTES AND ABBREVIATIONS

OCTOBER 2004

- GDP - Gross Domestic Product
- na - not available
- OECD - Organisation for Economic Co-operation and Development
- y-o-y - year-on-year
- IMF - International Monetary Fund
- Emu - European economic and monetary union
- ECB - European Central Bank
- q-o-q - quarter-on-quarter
- m-o-m - month-on-month
- Measures of GDP, Consumption, Business Investment and Industrial Production are expressed in real (i.e. inflation-adjusted) terms. These variables, and certain others as indicated, are expressed as percentage changes over the previous year.
- All individual country forecasters on pages 4-24 are listed in descending order of their 2004 real GDP estimates. Consensus forecasts are mean arithmetic averages of the listed individual estimates.

In addition to their regular forecasts, country panellists were asked to provide longer-term forecasts covering the period until 2014 for growth in real GDP, consumer spending, investment and industrial production, along with consumer price inflation, current account balances and long-term bond yields. All definitions correspond to those used in the individual country pages.

United States											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	3.7	0.8	1.9	3.0	4.4	3.5	3.4	3.2	3.1	3.1	3.2
Personal Consumption*	4.7	2.5	3.1	3.3	3.5	3.1	3.3	3.1	3.0	3.0	3.0
Business Investment*	8.7	-4.2	-8.9	3.3	10.0	8.9	7.4	5.8	5.7	5.8	5.4
Industrial Production*	4.4	-3.4	-0.8	0.3	4.6	4.5	4.2	3.9	3.7	3.7	3.6
Consumer Prices*	3.4	2.8	1.6	2.3	2.6	2.3	2.3	2.5	2.5	2.5	2.5
Current Account Balance (US\$bn)	-413	-388	-474	-531	-640	-671	-669	-663	-650	-618	-557
10 Year Treasury Bond Yield, % ²	5.1	4.1	3.8	4.4	4.6 ³	5.1 ⁴	5.5	5.6	5.7	5.8	5.9

¹Signifies average for period ²End period ³End January, 2005 ⁴End October, 2005

Our survey of long-term forecasts coincides with ongoing geopolitical uncertainty, coupled with recent oil supply disruptions, which have lifted oil prices above US\$50 per barrel. Consequently, the G-7 and Western European nations (most of which are net importers of oil) must now face a higher level of energy costs over the foreseeable future. In the US, GDP growth forecasts still remain optimistic, despite growing concerns over the impact of oil prices on activity. Indeed, US long-term expectations continue to outstrip those for Japan and the Euro zone, due to higher productivity growth and continued progress in technological innovation which are helping to shift growth rates higher and keep inflation under control. However, high energy prices pose a downside risk to the outlook. Moreover, consumer price expectations suggest that the pace of inflation is expected to edge upwards over the medium-term. Another cause for concern is the rising private debt burden, as illustrated by forecasts for the massive current account deficit which, though expected to recede over

the next 10 years, will remain large. This suggests that consumer spending strength could be becoming increasingly unsustainable. GDP expectations in the UK over the medium-term are also coloured by worries over rising household borrowing. In the past, borrowing has been financed by a very buoyant housing market, but worries over debt indicate that this probably cannot continue without precipitating a correction. Japan has the opposite problem: domestic demand is still muted while the expansion remains overly reliant on export demand, and GDP growth after this year is expected to slow substantially. Moreover, an expected consumption tax hike after April 2007 has also adversely affected GDP and consumption forecasts for that year. In addition, the economy continues to wrestle with lingering deflation pressures, which are set to end after 2005. Euro zone growth projections are reined in by structural rigidities in the labour market and troublesome budget deficits which could worsen as the region's population continues to age.

(tables continued on pages 28-29)

Japan											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	2.8	0.4	-0.3	2.5	4.3	1.8	1.8	1.2	2.1	2.1	1.7
Private Consumption*	0.8	1.8	0.9	0.8	3.1	1.6	2.0	1.1	2.0	2.1	1.8
Business Investment*	9.7	0.9	-7.0	9.6	10.7	4.9	3.4	1.9	3.5	3.2	1.8
Industrial Production*	5.2	-6.5	-1.3	3.3	6.4	2.6	1.9	1.1	2.9	2.5	1.8
Consumer Prices*	-0.7	-0.7	-1.0	-0.3	-0.1	0.0	0.4	1.6	0.8	1.0	1.2
Current Account Balance (¥tn)	12.9	10.7	14.1	15.8	18.5	18.4	19.1	19.0	18.2	18.3	18.2
10 Year Treasury Bond Yield, % ²	1.6	1.4	0.8	1.4	1.6 ³	1.8 ⁴	2.1	2.3	2.7	3.1	2.9

Germany											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	2.9	0.8	0.1	-0.1	1.9	1.6	1.6	1.6	1.6	1.6	1.5
Private Consumption*	2.0	1.7	-0.7	0.0	0.0	1.0	1.3	1.4	1.4	1.3	1.3
Machinery & Eqpt Investment*	10.1	-4.9	-8.6	-1.4	-0.1	4.1	2.3	2.2	2.4	2.2	2.0
Industrial Production*	4.8	-0.4	-1.2	0.1	2.6	2.5	1.6	2.0	2.0	1.7	1.7
Consumer Prices*	1.5	2.0	1.4	1.1	1.7	1.4	1.4	1.5	1.6	1.6	1.6
Current Account Balance (Euro bn)	-27.9	1.7	45.7	48.1	74.4	69.1	58.4	38.3	31.7	26.7	21.7
10 Year Treasury Bond Yield, % ²	4.9	5.0	4.2	4.3	4.3 ³	4.6 ⁴	4.9	4.9	4.8	4.9	4.9

¹Signifies average for period ²End period ³End January, 2005 ⁴End October, 2005

	Average % Change on Previous Calendar Year										Annual Total									
	Gross Domestic Product		Personal Consumption		Business Investment		Pre - Tax Profits		Industrial Production		Consumer Prices		Producer Prices		Employment Costs		Auto and Light Truck Sales (mn units)		Housing Starts (mn units)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Economic Forecasters																				
Bear Stearns	4.6	4.2	3.8	3.9	10.1	9.2	16.9	8.9	4.6	5.3	2.6	2.1	3.3	0.9	na	na	16.5	17.0	1.80	1.70
The Conference Board	4.6	5.4	3.8	4.7	9.9	15.1	23.8	22.3	5.5	6.9	2.5	3.4	3.5	1.2	2.8	3.5	17.0	17.8	1.96	1.91
Goldman Sachs	4.5	3.1	3.6	2.7	10.4	10.4	14.3	-1.3	4.6	2.9	2.7	2.7	3.7	3.2	3.9	4.3	16.2	16.2	1.95	1.83
Bank America Corp	4.5	3.6	3.8	3.1	10.1	8.5	23.0	12.0	4.4	3.5	2.8	2.4	3.4	2.4	na	na	16.3	16.7	1.93	1.85
Morgan Stanley	4.5	3.5	3.6	3.3	10.3	10.7	15.0	7.0	4.5	5.1	2.6	2.1	3.2	1.3	na	na	16.7	16.4	1.92	1.83
Oxford Economics	4.5	3.8	3.6	3.3	9.8	8.2	18.0	15.6	4.5	4.4	2.6	2.1	3.3	2.0	3.7	3.6	16.6	16.4	1.90	1.55
Standard & Poor's	4.5	3.4	3.8	2.8	10.5	7.5	16.2	7.2	4.5	4.0	2.7	2.2	3.7	1.7	3.9	3.9	16.7	16.6	1.93	1.78
Wachovia Corp	4.5	3.1	3.5	2.8	10.3	5.8	17.3	10.2	4.6	5.0	2.6	2.7	3.9	3.6	3.8	3.7	16.8	17.3	1.94	1.87
Macroeconomic Advisers	4.4	3.9	3.6	3.3	10.1	10.5	16.1	5.7	4.6	5.8	2.6	1.8	3.4	0.9	na	na	16.7	16.8	1.94	1.80
Credit Suisse First Boston	4.4	3.6	3.6	3.0	9.4	7.7	18.2	6.3	4.7	4.8	2.7	2.6	na	na	na	na	na	na	na	na
Northern Trust	4.4	3.4	3.5	3.0	10.0	7.4	na	na	4.4	3.1	2.6	2.6	na	na	na	na	16.3	16.1	1.92	1.84
Economy.com	4.4	3.3	3.5	2.8	10.9	10.1	17.6	5.4	4.6	3.4	2.6	2.0	4.1	2.7	3.9	3.9	16.6	15.9	1.95	1.71
Fannie Mae	4.4	3.9	3.6	3.2	10.0	10.8	16.1	5.9	4.6	5.9	2.6	2.1	3.4	1.3	na	na	na	na	1.91	1.80
Global Insight	4.4	3.4	3.5	3.0	10.6	8.1	15.5	7.7	4.6	4.0	2.6	1.8	3.3	1.4	3.9	3.6	16.8	17.0	1.93	1.80
JP Morgan	4.4	3.7	3.6	3.6	10.2	9.6	14.8	7.7	4.4	5.0	2.6	2.2	3.4	2.3	3.8	3.4	16.7	16.7	1.92	1.83
Lehman Brothers	4.4	3.4	3.5	3.1	10.5	12.0	18.5	12.9	4.5	3.7	2.6	2.2	na	na	3.9	4.0	16.7	16.3	1.75	1.65
Mortgage Bankers Assoc	4.4	3.6	3.6	3.1	10.1	9.8	16.0	5.0	4.6	4.9	2.6	2.0	3.4	1.1	na	na	16.7	16.7	1.94	1.83
United States Trust	4.4	3.6	3.6	3.2	9.7	7.3	18.9	5.1	4.8	5.7	2.6	2.1	na	na	na	na	16.7	16.8	1.95	1.89
Univ of Michigan - RSGE	4.4	3.7	3.6	3.8	10.1	10.9	16.6	7.3	4.5	4.8	2.7	2.2	3.6	0.9	na	na	16.7	16.9	1.96	1.80
Wells Capital	4.4	3.5	3.5	3.0	10.6	10.7	16.2	6.3	4.6	4.3	2.9	3.3	3.3	2.9	3.9	3.8	16.6	15.9	1.92	1.81
General Motors	4.3	3.3	3.6	2.9	9.6	8.7	15.5	2.9	4.5	5.0	2.6	2.4	3.4	2.4	3.6	3.6	na	na	1.93	1.73
Ford Motor Corp	4.3	3.5	3.3	3.1	9.1	9.8	na	na	4.9	6.0	2.5	2.0	3.1	1.2	na	na	na	na	1.91	1.65
Merrill Lynch	4.3	3.0	3.5	2.7	9.4	4.4	na	na	4.3	3.3	2.6	1.8	na	na	na	na	16.6	16.2	1.95	1.80
Econ Intelligence Unit	4.2	3.1	3.5	3.0	na	na	na	na	4.4	3.1	2.7	2.5	3.4	1.7	na	na	16.2	16.4	na	na
Daimler Chrysler	4.2	3.3	3.5	3.1	9.4	7.0	16.0	5.8	4.5	4.3	2.6	2.0	3.2	1.6	na	na	na	na	1.87	1.74
DuPont	4.2	2.5	3.4	2.5	9.1	5.3	16.0	7.0	4.4	3.1	2.6	2.3	3.3	2.0	3.6	3.5	16.6	16.6	1.91	1.75
Inform - Univ of Maryland	4.2	3.2	3.5	2.3	9.6	7.6	16.4	4.3	4.7	4.6	2.7	2.8	3.9	2.1	na	na	16.6	16.2	1.96	1.90
Georgia State University	4.2	2.8	3.2	2.4	9.1	6.2	15.4	6.4	4.8	4.8	2.9	2.9	5.7	1.0	4.4	4.2	16.5	16.2	1.94	1.68
Consensus (Mean)	4.4	3.6	3.5	3.1	10.0	8.9	17.0	7.6	4.6	4.5	2.6	2.3	3.6	1.8	3.8	3.8	16.6	16.6	1.92	1.77
Last Month's Mean	4.3	3.5	3.4	3.0	9.7	8.6	17.0	7.4	4.8	4.8	2.7	2.4	3.5	1.8	3.8	3.7	16.6	16.6	1.91	1.75
3 Months Ago	4.5	3.8	3.8	3.3	9.7	9.1	16.9	7.6	5.3	5.2	2.6	2.3	3.5	1.6	3.6	3.7	16.6	16.6	1.89	1.73
High	4.6	5.4	3.8	4.7	10.9	15.1	23.8	22.3	5.5	6.9	2.9	3.4	3.7	3.6	4.4	4.3	17.0	17.8	1.98	1.91
Low	4.2	2.5	3.2	2.3	9.1	4.4	14.3	-1.3	4.3	2.9	2.5	1.8	3.1	0.9	2.6	3.4	16.2	15.9	1.75	1.55
Standard Deviation	0.1	0.5	0.1	0.5	0.5	2.3	2.3	4.6	0.3	1.0	0.1	0.4	0.5	0.8	0.4	0.3	0.2	0.5	0.05	0.09
Comparison Forecasts																				
CBO (Sep. '04)	4.5	4.1									2.6	2.0								
OMB (Jul. '04)	4.7	3.7									2.5	2.3								
IMF (Sep. '04)	4.3	3.5	3.4	2.7							3.0	3.0								
OECD (May '04)	4.7	3.7	3.5	3.2																

Government and Background Data

President - Mr. George W. Bush (Republican). Congress - The Republicans have a small majority in both the House of Representatives (lower house) and the Senate (upper house). Next Elections - November 2, 2004 (Presidential and Congressional). Nominal GDP - \$11,004bn (2003). Population - 294.0mn (mid-year, 2003).

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	5.0	4.7	3.7	3.6	3.4	3.6	3.6	3.5	3.4	3.4	3.4	3.4
Personal Consumption	4.2	3.6	3.1	3.0	2.8	3.2	3.2	3.1	3.1	3.1	3.1	3.1
Consumer Prices	1.8	2.8	2.9	3.3	2.9	2.3	2.2	2.2	2.2	2.3	2.2	2.3

Percentage Change (year-on-year).

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	3.7	0.8	1.9	3.0
Personal Consumption*	4.7	2.5	3.1	3.3
Business Investment*	6.7	-4.2	-8.9	3.3
Pre - Tax Profits*	-3.9	-6.2	14.0	16.6
Industrial Production*	4.4	-3.4	-0.6	0.3
Consumer Prices*	3.4	2.8	1.6	2.3
Producer Prices*	3.9	2.0	-1.3	3.2
Employment Costs*	4.4	4.0	3.8	3.9
Auto & Light Truck Sales, mn	17.2	17.0	16.7	16.6
Housing Starts, mn	1.57	1.60	1.71	1.85
Unemployment Rate, %	4.0	4.8	5.8	6.0
Current Account, US\$ bn	-413	-386	-474	-531
Federal Budget Balance, fiscal years, US\$ bn	236	127	-156	-375
3 mth Treasury Bill, % (end yr)	5.9	1.7	1.2	0.9
10 Year Trsy Bond, % (end yr)	5.1	4.1	3.8	4.4

Year Average	Annual Total		Fiscal Years (Oct-Sep)		Rates on Survey Date			
	Current Account (US\$ bn)		Federal Budget Balance (US\$ bn)		1.7%		4.1%	
Unemployment Rate (%)					3 month Treasury Bill Rate (%)		10 Year Treasury Bond Yield (%)	
2004 2005	2004 2005	FY 03-04 FY 04-05	End Jan'05 End Oct'05	End Jan'05 End Oct'05	End Jan'05 End Oct'05	End Jan'05 End Oct'05		
5.6	5.0	na na	-425 -375	2.0 3.5	4.9 5.7			
5.5	4.7	-657 -792	-448 -306	2.0 4.3	4.8 5.6			
5.5	5.2	-664 -762	-415 -350	2.5 3.4	4.6 5.0			
5.5	5.4	-589 -588	-450 -390	2.3 3.2	4.5 5.0			
5.5	5.5	-662 -783	-410 -350	2.2 3.0	4.4 4.8			
5.5	5.3	-667 -690	-425 -452	2.4 3.6	4.5 5.1			
5.5	5.3	-659 -678	-424 -318	2.3 3.3	4.6 5.1			
5.5	5.3	na na	-420 -340	2.9 3.6	5.5 5.8			
5.5	5.1	-648 -665	-424 -314	2.1 3.3	4.4 5.3			
5.5	5.2	na na	-453 -405	na na	4.3 na			
5.6	5.4	na na	na na	2.0 2.9	4.4 5.0			
5.6	5.4	-629 -599	-433 -412	2.2 3.2	4.8 5.1			
5.5	5.2	na na	-398 -311	na na	na na			
5.5	5.3	-663 -703	-415 -330	2.2 2.9	4.5 5.0			
5.5	5.0	-621 -636	-425 -375	2.4 3.8	4.8 5.9			
5.5	5.2	-670 -735	-425 -350	2.0 2.7	4.5 4.8			
5.5	5.3	-649 -691	na na	2.2 2.9	4.4 4.9			
5.5	4.9	-680 -630	-406 -390	2.1 3.1	4.6 4.8			
5.5	5.2	-648 -722	-421 -355	2.1 2.7	4.3 4.7			
5.5	5.2	-605 -595	-420 -390	2.0 3.3	4.5 4.9			
5.5	5.4	-596 -551	-406 -374	2.0 2.6	4.4 4.9			
5.5	5.3	na na	-428 -317	2.5 3.6	5.3 5.5			
5.6	5.6	-623 -600	-425 -400	na na	na na			
5.6	5.3	-653 -728	-476 -534	na na	na na			
5.6	5.6	na na	na na	2.3 3.0	4.3 4.7			
5.5	5.3	na na	-440 -380	1.9 2.4	4.5 5.0			
5.5	5.3	na na	na na	2.1 3.2	4.7 5.6			
5.6	5.7	-610 -612	-394 -342	2.0 2.9	4.6 5.2			
5.5	5.3	-640 -671	-425 -389	2.2 3.2	4.6 5.1			
5.6	5.3	-624 -628	-429 -371					
5.6	5.2	-595 -598	-442 -381					
5.6	5.7	-589 -561	-394 -306	2.9 4.3	5.5 5.9			
5.5	4.7	-670 -792	-476 -534	1.9 2.4	4.3 4.7			
0.0	0.2	26 71	18 51	0.2 0.4	0.3 0.4			
5.6	5.2		-422 -348					
5.5	5.3		-445 -331					
5.5	5.4	-631 -642						
5.5	5.2							

Second Half Upturn Evident But Still Gradual

Following the Fed's upgraded assessment of current conditions in the wake of its 25 basis-point interest rate hike on September 21, our panel's GDP forecasts for this year have edged upwards. New factory goods orders fell by 0.1% m-o-m in August after July's 1.7% jump but, excluding the civilian and defence aircraft sectors and transportation, orders actually rose by 1.3%. This indicates that industrial activity continues on a positive bent. Looking ahead, the ISM survey of manufacturing for September showed the sector growing for the 16th consecutive month, with new orders, production and employment rising, albeit at a more muted pace than in previous months. Forecasts for industrial production have faltered this month as a result.

Despite heartening news regarding solid manufacturing employment growth, total payrolls growth in September slowed, consumers remain concerned about the employment outlook. Most analysts, however, have stayed positive about personal consumption growth, citing upbeat automobile sales in September and dissipating price pressures as grounds for optimism. Indeed, the Fed's principal indicator of inflation - the core personal consumption expenditure (PCE) deflator - showed zero inflation (m-o-m) in July and August. This contrasts with stronger price pressures earlier in the year and appears to support the Fed's claim that recent price surges were mainly "transitory" in nature. However, oil price volatility poses a downside risk to activity. Indeed, the range of forecasts for variables such as GDP growth in 2005 has widened since last month, underscoring the uncertainty in the outlook. Oil prices soaring above US\$50 per barrel in recent weeks have further fuelled concerns. In any event, the economy may well have to adapt to a higher level of oil prices over the longer-term. In the meantime, other data covering consumer spending points to flat real consumption growth (m-o-m) in August, along with a drop in retail sales. The effect of storm disruption in the southeast of the country could be a factor, although this only serves to heighten the lack of clarity regarding consumer spending fundamentals over the second half of this year.

Direction of Trade - 2003

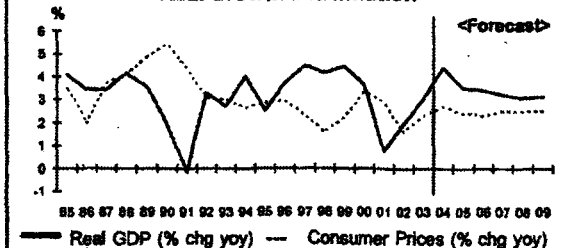
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
Canada	23.4	Canada	17.4
Mexico	13.5	China	12.5
Japan	7.2	Mexico	10.7
Latin America	20.6	Asia (ex. Japan)	27.0
Asia (ex. Japan)	18.7	Latin America	17.1
Middle East	3.0	Middle East	3.5

Likelihood of a Federal Reserve Interest Rate Change

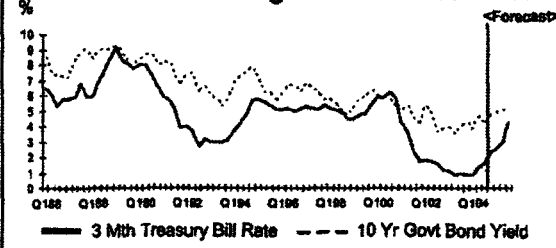
Our panel's estimated average probability of a change in the Federal Funds rate at or before the next FOMC meeting following the survey date was:

INCREASE	NO CHANGE	DECREASE	
78.9	+	20.2	+ 1.0 = 100 %
Most likely rate change mentioned:			+0.25%

Real Growth and Inflation



Short- and Long-Term Interest Rates



	Average % Change on Previous Calendar Year										Annual Total							
	Gross Domestic Product		Private Consumption		Business Investment		Industrial Production		Consumer Prices		Domestic Corporate Goods Prices		Total Cash Earnings (nominal)		New Car Registrations (mn)		Housing Starts (mn)	
	国内総生産		民間消費		民間設備投資		鉱工業生産		消費者物価		卸売物価		現金給与総額(名目)		新車登録台数(百万台)		建設住宅着工(百万戸)	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Sumitomo Life Rarch Institute	4.7	1.8	3.3	1.6	10.4	2.6	6.2	3.1	-0.1	-0.2	1.2	0.0	na	na	na	na	1.18	1.18
Nomura Research Institute	4.5	1.8	3.1	1.2	10.5	6.0	6.7	2.0	-0.2	0.0	1.1	0.7	-1.0	-1.0	na	na	na	na
UBS	4.5	1.7	3.1	1.4	11.9	6.0	6.5	1.7	-0.2	0.1	1.0	0.2	-1.4	-2.0	3.2	3.2	1.18	1.19
Mizuho Research Institute	4.4	2.0	3.0	1.4	11.6	5.5	7.6	4.0	-0.1	-0.2	0.3	-0.3	-0.1	0.2	na	na	1.19	1.19
UFJ Institute	4.4	0.2	3.1	1.5	9.7	-0.7	6.3	-1.0	-0.1	-0.1	1.0	-0.6	-0.7	-0.7	na	na	1.17	1.15
JP Morgan - Japan	4.3	2.5	3.0	1.6	11.1	7.4	6.2	4.2	-0.2	-0.2	1.3	1.9	-0.1	0.5	na	na	1.17	1.18
HSBC	4.3	2.2	3.0	1.7	11.4	7.2	6.3	2.6	-0.1	0.0	1.1	1.1	-0.3	0.5	na	na	na	na
Daiwa Institute of Research	4.3	1.8	3.1	1.6	9.8	5.2	6.3	0.3	-0.2	0.0	1.0	0.6	na	na	na	na	na	na
Goldman Sachs	4.3	2.4	3.3	2.4	10.6	6.0	6.3	2.7	-0.1	-0.1	1.0	0.8	na	na	na	na	na	na
ITOCHU Institute	4.3	1.7	3.1	1.6	10.0	6.3	6.5	2.3	-0.2	-0.2	0.9	-0.3	-0.9	1.0	3.4	3.5	1.17	1.14
Japan Ctr for Econ Research	4.3	1.5	2.9	0.6	11.0	6.9	6.6	2.7	-0.3	-0.2	1.0	-0.3	-0.4	-0.6	na	na	1.17	1.16
NLI Research Institute	4.3	1.5	3.0	1.1	11.4	5.3	6.1	1.7	-0.1	-0.1	1.2	1.4	na	na	na	na	1.17	1.16
Bank of Tokyo Mitsubishi	4.2	1.6	3.1	1.4	10.6	6.4	7.3	3.1	-0.2	-0.2	1.1	1.0	na	na	na	na	1.17	1.15
Credit Suisse First Boston	4.2	1.9	3.1	2.0	10.1	4.2	6.7	5.3	-0.2	-0.1	na	na	na	na	na	na	na	na
Merrill Lynch - Japan	4.2	2.5	3.2	2.5	11.6	8.6	6.3	4.5	-0.1	0.3	na	na	na	na	na	na	na	na
Mitsubishi Research Institute	4.2	1.7	3.1	1.5	11.0	3.9	6.4	2.7	-0.1	0.2	1.1	0.8	na	na	na	na	1.17	1.16
Toyota Motor Corporation	4.2	1.5	2.9	1.5	11.0	4.0	6.5	2.0	-0.1	0.0	1.0	0.0	0.2	0.5	3.3	3.2	1.16	1.16
Econ Intelligence Unit	4.2	1.7	3.1	1.4	na	na	6.6	2.6	-0.1	0.2	1.2	1.6	na	na	na	na	na	na
Global Insight	4.1	2.0	3.0	2.2	9.8	1.3	6.0	2.1	-0.2	-0.2	0.8	-1.4	na	na	na	na	1.20	1.25
Deutsche Securities	4.0	1.8	3.0	2.2	9.5	1.7	5.0	3.3	0.0	0.5	1.2	1.1	-1.1	0.7	na	na	na	na
Consensus (Mean)	4.3	1.8	3.1	1.6	10.7	4.9	6.4	2.6	-0.1	0.0	1.0	0.5	-0.6	-0.1	3.3	3.3	1.16	1.17
Last Month's Mean	4.3	1.8	3.1	1.6	10.5	5.2	6.5	2.7	-0.1	0.0	1.0	0.4	-0.5	0.0	3.4	3.4	1.16	1.16
3 Months Ago	4.2	1.8	2.8	1.5	10.9	6.4	6.3	2.6	-0.1	0.0	0.5	0.0	-0.3	0.3	3.2	3.2	1.16	1.16
High	4.7	2.5	3.3	2.5	11.9	8.6	7.6	5.3	0.0	0.5	1.3	1.9	0.2	1.0	3.4	3.5	1.20	1.25
Low	4.0	0.2	2.9	0.6	9.5	-0.7	5.0	-1.0	-0.3	-0.2	0.3	-1.4	-1.4	-2.0	3.2	3.2	1.16	1.14
Standard Deviation	0.2	0.5	0.1	0.5	0.7	2.3	0.5	1.4	0.1	0.2	0.2	0.9	0.5	1.0	0.1	0.2	0.01	0.03
Comparison Forecasts																		
IMF (Sep. '04)	4.4	2.3	3.1	1.7					-0.2	-0.1								
OECD (May '04)	3.0	2.8	1.7	1.5														

Government and Background Data

Prime Minister - Mr. Junichiro Koizumi (LDP). Parliament - The LDP-led coalition, comprising the Komeito and New Conservative parties, has a majority in the lower house of parliament.
 Next Elections - by 2007 (lower house). Nominal GDP - ¥498.1tn (2003). Population - 127.7mn (mid-year, 2003). Yen/\$ Exchange Rate - 115.9 (average, 2003).

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	5.1	4.3	4.6	3.1	1.8	1.9	1.7	1.7	1.8	1.8	1.8	1.8
Private Consumption	2.9	3.4	3.3	2.4	1.7	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Consumer Prices	-0.1	-0.3	-0.1	0.0	-0.1	0.1	0.1	0.1	0.2	0.6		

Percentage Change (year-on-year).

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	2.8	0.4	-0.3	2.5
Private Consumption*	0.8	1.8	0.9	0.8
Business Investment*	9.7	0.9	-7.0	9.6
Industrial Production*	5.2	-6.5	-1.3	3.3
Consumer Prices*	-0.7	-0.7	-1.0	-0.3
Domestic Corporate Goods Prices*	0.1	-2.3	-2.1	-0.8
Total Cash Earnings (nominal)*	0.5	-1.1	-2.3	-0.4
New Car Registrations, mn	3.0	3.0	3.2	3.3
Housing Starts, mn	1.23	1.17	1.15	1.16
Unemployment Rate, %	4.8	5.0	5.4	5.3
Current Account, ¥tn	12.9	10.7	14.1	15.8
General Govt Budget Balance, SNA basis, fisc. years, ¥tn	-28.1	-35.7	-29.8	-38.4
3 mth CD's, % (end yr)	0.6	0.1	0.1	0.1
10 Yr Govt Bond, % (end yr)	1.6	1.4	0.8	1.4

* = consensus estimate based on latest survey

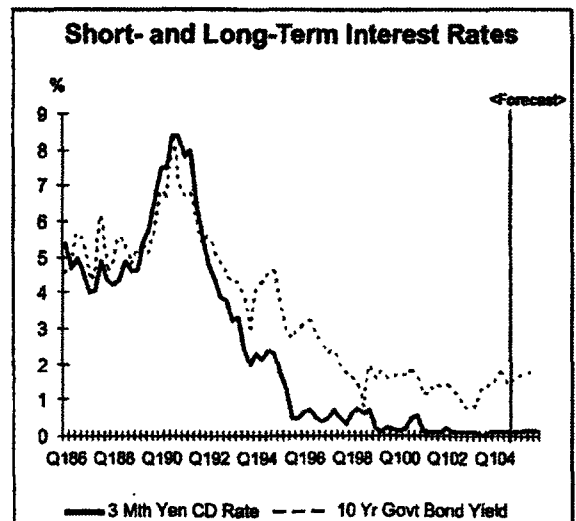
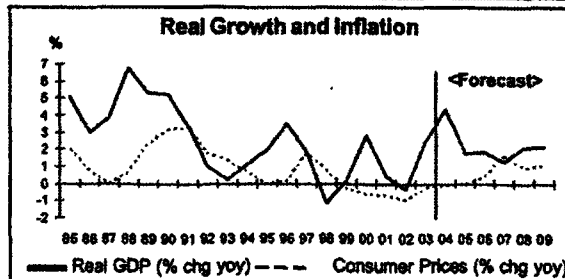
Year Average	Annual Total		Fiscal Years (Apr-Mar)		Rates on Survey Date					
					0.1%		1.6%			
Unemployment Rate (%)	Current Account (\$bn)		General Government Budget Balance (\$bn)		3 month Yen Cert of Deposit (%)		10 Year Govt Bond Yield (%)			
失業率	経常収支		一般政府財政収支 (SNAベース、兆円)		3ヵ月物円証 譲渡性預金		10年物国債利回り			
	2004	2005	2004	2005	FY 04-05	FY 05-06	End Jan'05	End Oct'05	End Jan'05	End Oct'05
4.7	4.6	na	na	na	na	0.1	0.1	1.7	1.5	
4.6	4.3	19.1	21.0	-31.9	-34.0	0.1	na	1.6	na	
4.7	4.3	18.6	17.5	na	na	0.1	0.1	1.8	1.7	
4.7	4.3	19.4	21.3	na	na	0.1	0.1	1.7	2.0	
4.6	4.6	18.6	17.7	na	na	0.1	0.1	1.3	1.8	
4.6	4.7	18.3	18.4	na	na	0.1	0.1	1.9	1.9	
4.8	4.4	17.5	17.5	-51.4	-49.0	0.1	0.1	1.8	2.2	
4.7	4.5	18.3	17.3	-37.5	-34.9	0.1	na	1.7	na	
4.8	4.6	18.5	18.9	na	na	0.1	0.3	1.6	2.0	
4.5	4.0	19.1	17.9	na	na	0.0	0.0	1.9	1.2	
4.7	4.6	17.8	18.4	na	na	0.1	0.1	1.4	1.3	
4.7	4.6	18.3	16.1	na	na	0.1	0.1	1.7	1.7	
4.8	4.8	18.2	18.7	na	na	0.1	0.1	1.6	1.9	
na	na	na	na	na	na	0.1	0.1	na	na	
4.7	4.1	19.0	18.8	na	na	na	na	1.8	2.4	
4.7	4.5	17.6	16.3	na	na	0.1	0.2	1.4	1.4	
4.8	4.7	18.0	15.0	na	na	0.1	0.1	1.6	1.7	
4.8	4.7	na	na	na	na	na	na	na	na	
4.8	5.0	19.2	20.9	na	na	0.1	0.6	1.6	2.0	
4.7	4.5	18.6	21.1	-30.5	-28.3	0.1	0.3	1.8	2.2	
4.7	4.5	18.5	18.4	-37.8	-36.5	0.1	0.2	1.6	1.8	
4.7	4.5	18.7	18.4	-38.0	-35.9					
4.8	4.6	18.4	18.5	-37.8	-32.1					
4.8	5.0	19.4	21.3	-30.5	-28.3	0.1	0.6	1.9	2.4	
4.6	4.0	17.5	15.0	-51.4	-49.0	0.0	0.0	1.3	1.2	
0.1	0.2	0.6	1.8	9.5	8.8	0.0	0.1	0.2	0.3	
4.7	4.5									
5.0	4.6									

Signs of Deceleration Despite Upbeat Tankan Survey
 Data releases over the past few weeks continue to point to moderating economic activity, suggesting that the expansion may have already peaked. METI's all-industry index - which tracks activity in both manufacturing and services and is often used as a proxy for supply-side GDP - fell by 0.6% m-o-m in July compared with a 0.7% rise in June. The tertiary (or services) industry was the main factor behind the fall, declining by 0.8% m-o-m as a result of weakness in the information and telecoms sector. The good news is that, excluding that particular sector, services activity would have picked up instead of declined. However, the data highlight the relative softness in domestic activity compared with export-oriented industry. Moreover, external demand is also starting to decelerate. Industrial production in August grew by 0.3% m-o-m, but industrial shipments fell by 2.1% m-o-m after 0.5% growth in July while core machinery orders were soft. The trade surplus also narrowed in August and, while exports to China and the US (Japan's most important trading partners) rose, the pace of the increase was slower than in previous months. With Japan's recovery primarily centred on foreign demand with only modest support from domestic activity, concerns are rife about a sharp slowdown going into next year. Indeed, consensus forecasts point to a significant deceleration in GDP growth in 2005. And, despite signs that real spending in salaried workers' households is on an upward bent, consumer expenditure still cannot match the recent momentum in industry.

In the face of high oil prices and faltering global demand, the Bank of Japan's Tankan survey of business sentiment in September presented an upbeat picture of business conditions. Large manufacturers were especially optimistic, upgrading their capital spending and profit expectations. Encouragingly, smaller companies were also positive. There was some uncertainty expressed with regards to the current economic climate over the next 3 months, and the survey does underscore the gap between the optimistic corporate sector and more muted domestic demand, despite pointing to a potential improvement in domestic sales. Consensus forecasts for business investment in 2004 have risen.

Direction of Trade -- 2003

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	24.1	China	18.5
China	13.4	United States	15.1
South Korea	7.3	South Korea	4.7
Asia (inc. the above)	47.7	Asia (inc. the above)	45.6
Latin America	3.5	Middle East	13.2
Middle East	2.9	Latin America	2.5



	Average % Change on Previous Calendar Year													
	Gross Domestic Product		Private Consumption		Machinery & Equipment Investment		Industrial Production		Consumer Prices		Producer Prices		Negotiated Wages and Salaries	
	Bruttoinlandsprodukt		Privater Verbrauch		Ausstattungs-investitionen		Produktion im Produzierenden Gewerbe		Preisindex für die Lebenshaltung		Index für Erzeugerpreise		Tariflohn- und gehaltsniveaus	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Bank Julius Beer	2.1	1.5	0.0	1.2	0.7	2.9	2.6	2.1	1.7	1.5	1.2	1.6	2.0	2.2
UBS	2.1	1.1	-0.3	0.2	0.1	3.4	2.8	2.8	1.7	1.4	1.6	2.0	1.8	1.5
Commerzbank	2.0	2.0	0.0	1.3	0.5	6.0	3.0	3.0	1.6	1.6	1.5	2.3	2.4	2.6
Dresdner Bank	2.0	1.5	-0.3	1.2	0.0	5.5	3.2	2.0	1.7	1.4	1.2	1.0	1.8	1.8
ING BHF-Bank	2.0	2.0	0.0	1.6	-1.0	1.8	2.0	2.0	1.7	1.6	1.5	2.0	2.5	2.5
JP Morgan	2.0	1.6	na	na	na	na	2.3	2.8	1.6	1.4	1.7	1.5	na	na
Lehman Brothers	2.0	1.5	0.1	0.8	-1.5	2.0	2.1	2.5	1.6	0.6	1.5	1.0	2.0	2.2
WestLB	2.0	1.6	0.2	1.0	-0.2	5.7	2.7	3.5	1.7	1.5	1.5	1.8	2.2	2.4
Bank of America	1.9	1.5	na	na	na	na	2.7	2.8	1.6	1.1	na	na	na	na
Deutsche Bank	1.9	1.2	0.1	1.0	-0.4	3.7	2.4	1.8	1.6	1.3	1.7	1.4	2.3	2.3
Deutsche Bank	1.9	1.2	0.0	0.8	-0.6	3.2	2.5	1.8	1.8	1.4	1.5	1.5	1.8	2.1
Goldman Sachs	1.9	1.7	-0.4	0.9	-2.0	3.6	2.2	2.4	1.7	1.5	1.5	2.4	na	na
SEB	1.9	1.6	0.1	1.2	-0.5	3.5	2.5	2.9	1.6	1.4	1.3	1.3	2.2	2.5
WZG Bank	1.9	1.6	0.6	1.4	1.5	4.8	3.0	3.0	1.7	1.1	1.4	1.4	1.8	1.8
DZ Bank	1.9	1.5	0.0	1.1	-1.9	5.4	2.6	3.7	1.8	1.4	1.5	1.6	na	na
Bankgesellschaft Berlin	1.8	1.9	-0.1	1.1	-0.5	5.9	2.5	2.5	1.6	1.5	1.6	2.6	1.4	2.0
Bayerische LBank	1.8	1.5	0.0	1.0	0.1	3.5	2.5	2.3	1.7	1.7	1.5	2.0	2.1	2.0
Citigroup	1.8	1.4	0.0	1.0	-0.5	6.0	2.8	2.5	1.6	1.2	1.5	1.3	1.5	1.9
FAZ Institute	1.8	1.5	0.5	1.2	3.0	4.0	2.5	2.0	1.7	1.5	1.2	1.0	2.2	2.4
NBSG Trnavaus	1.8	1.2	0.6	0.6	1.0	1.8	2.5	1.2	1.7	1.1	1.5	0.7	1.6	1.5
Invesco Bank	1.8	1.0	-0.2	0.8	-0.8	2.0	2.5	2.0	1.6	2.0	1.6	2.0	2.5	2.5
IW - Cologne Institute	1.8	2.0	0.0	1.0	0.3	5.0	3.0	2.5	1.8	1.3	1.5	1.5	2.0	1.8
MM Warburg	1.8	1.4	-0.3	-0.6	-0.9	4.0	2.5	2.0	1.6	1.5	1.3	1.5	2.0	2.0
Econ Intelligence Unit	1.7	1.9	-0.2	1.2	na	na	2.2	2.5	1.8	1.5	1.1	1.3	na	na
Helaba Frankfurt	1.7	1.7	0.0	1.3	3.0	5.0	2.5	2.0	1.7	1.7	1.5	1.3	2.2	2.2
HypoVereinsbank	1.7	1.2	-0.3	1.1	-2.4	1.7	na	na	1.7	1.5	na	na	na	na
Sal Oppenheim	1.7	2.1	-0.5	0.7	-1.3	6.3	2.6	4.0	1.7	1.4	na	na	na	na
Morgan Stanley	1.7	1.4	0.6	1.5	1.6	4.5	na	na	1.7	1.6	na	na	na	na
Consensus (Mean)	1.9	1.6	0.0	1.0	-0.1	4.1	2.6	2.5	1.7	1.4	1.5	1.6	2.0	2.1
Last Month's Mean	1.8	1.6	0.1	1.2	0.7	4.3	2.6	2.5	1.8	1.4	1.3	1.5	2.1	2.2
3 Months Age	1.7	1.7	0.4	1.4	3.4	4.6	2.8	2.6	1.6	1.3	1.1	1.3	2.3	2.3
High	2.1	2.1	0.6	1.6	3.0	6.3	3.2	4.0	1.8	2.0	1.7	2.6	2.6	2.6
Low	1.7	1.0	-0.5	0.2	-2.4	1.5	2.0	1.2	1.6	0.6	1.1	0.7	1.4	1.5
Standard Deviation	0.1	0.3	0.3	0.3	1.4	1.7	0.3	0.6	0.1	0.3	0.2	0.5	0.3	0.3
Comparison Forecasts														
Government (Apr. '04)	1.5	1.8	0.7	1.6	4.8	6.0								
Eur Commission (Apr. '04)	1.5	1.8	0.9	2.2										
IMF (Sep. '04)	2.0	1.8	0.1	1.2										
OECD (May '04)	1.1	2.1	0.4	2.1										

Government and Background Data

Chancellor - Mr. Gerhard Schröder (Social Democratic Party).
Parliament - A coalition of the SPD and the Greens has a slim majority in the 603 seat Bundestag (lower house). Next Elections - By 2006 (Federal Assembly). Nominal GDP - Euro2,128bn (2003). Population - 82.5mn mid-year (2003). \$/Euro Exchange Rate - 1.131 (average, 2003).

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004				2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	0.8	1.5	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.6
Private Consumption	-1.0	-0.8	-0.2	0.6	0.9	1.1	1.3	1.3	1.2	1.2
Consumer Prices	1.1	1.8	1.9	2.0	1.8	1.5	1.4	1.3	1.3	1.4

Percentage Change (year-on-year).

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	2.9	0.8	0.1	-0.1
Private Consumption*	2.0	1.7	-0.7	0.0
Machinery & Eqpt Investment*	10.1	-4.9	-8.6	-1.4
Industrial Production*	4.8	-0.4	-1.2	0.1
Consumer Prices*	1.5	2.0	1.4	1.1
Producer Prices*	3.1	3.0	-0.6	1.7
Negotiated Wages & Salaries*	2.1	1.8	3.2	2.6
Unemployment Rate, %	9.6	9.4	9.8	10.5
Current Account, Euro bn	-27.9	1.7	45.7	48.1
Public Sector Budget				
Balance, Euro bn	-34.5	-48.2	-65.6	-75.1
3 mth Euro, % (end yr)	4.8	3.3	2.9	2.1
10 Yr German Govt Bond, % (end yr)	4.9	5.0	4.2	4.3

Year Average		Annual Total				Rates on Survey Date			
Unemployment Rate (%)		Current Account (Euro bn)	Public Sector Budget Bal (Euro bn)		3 month Euro Rate (%)		10 Year German Govt Bond Yield (%)		
Arbeitslosenquote, % der Erwerbspers. insgesamt		Leistungsbilanz (Euro bn)	Bilanz der Gebietskörperschaften (Euro bn)		3 Monate Euro (%)		Rendite von Bundesanleihen, 10 Jahre (%)		
2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
10.5	10.6	80.9	77.6	-90.6	-72.2	2.1	2.3	4.3	4.7
10.5	10.5	91.0	71.1	-74.0	-64.0	2.1	2.1	4.2	4.5
10.5	10.3	100.0	90.0	-77.3	-69.1	2.4	2.9	4.2	4.5
10.5	10.6	75.0	60.0	-86.0	-84.0	2.3	3.0	4.3	4.9
10.5	10.3	55.0	65.0	-85.0	-79.0	2.6	3.2	4.6	4.8
10.5	10.5	80.8	85.7	-86.0	-82.0	2.4	3.0	4.3	4.7
10.6	11.2	90.0	93.0	na	na	2.2	na	4.2	na
10.6	10.2	na	na	-83.0	-75.0	2.2	2.7	4.3	4.3
na	na	79.2	66.0	na	na	na	na	na	na
10.5	10.6	85.3	91.0	na	na	2.3	2.6	4.3	4.2
10.5	10.8	66.4	44.0	-81.4	-75.6	2.2	2.4	4.4	4.8
10.3	10.2	64.1	70.0	-78.7	-72.4	na	na	na	na
10.5	10.3	75.0	80.0	-78.0	-68.0	2.3	2.7	4.3	4.8
10.5	10.2	70.0	65.0	na	na	2.4	2.9	4.3	4.8
10.5	10.4	80.0	80.0	-80.0	-76.0	2.2	2.8	4.4	5.0
10.6	11.0	80.0	84.0	-82.0	-74.0	2.3	2.9	4.4	4.3
10.5	10.5	75.0	75.0	-80.0	-75.0	2.3	2.9	4.4	4.9
10.6	10.3	68.0	47.9	-85.0	-77.7	2.2	2.6	4.3	4.7
10.5	10.2	76.4	79.3	-84.0	-78.0	2.3	2.6	4.4	5.0
10.5	10.2	70.0	65.0	-87.0	-81.0	2.2	2.2	4.3	4.5
10.5	10.4	na	na	-90.0	-90.0	2.2	2.4	4.2	4.6
10.3	9.9	na	na	na	na	2.2	2.5	4.3	4.5
10.5	10.4	67.0	62.0	-85.0	-80.0	2.2	2.4	4.2	4.3
10.6	10.3	na	na	na	na	na	na	na	na
10.5	10.3	70.0	80.0	-81.0	-75.0	2.1	2.8	4.5	4.7
10.5	10.5	51.0	43.0	-85.0	-70.0	2.2	2.5	4.4	4.3
10.7	10.6	na	na	-85.0	-78.0	2.1	2.8	4.2	4.8
10.6	10.6	61.3	75.4	-85.4	-80.3	2.5	3.2	4.3	4.7
10.5	10.4	74.4	69.1	-83.2	-76.0	2.3	2.7	4.3	4.6
10.5	10.3	71.8	72.5	-82.3	-75.4				
10.4	10.2	85.8	68.0	-80.6	-73.5				
10.7	11.2	100.0	93.0	-74.0	-64.0	2.6	3.2	4.6	5.0
10.3	9.9	51.0	43.0	-90.6	-90.0	2.1	2.1	4.2	4.2
0.1	0.3	11.5	13.8	4.2	5.8	0.1	0.3	0.1	0.2

External Developments Weigh on Outlook

Evidence of moderating export growth and continued weakness in the domestic economy suggest that GDP growth will remain modest going forward. There are, however, some tentative signs that after a long period of stagnation, private consumption may begin to rebound. Retail sales, for example, have improved slightly in recent months (up by 0.5% m-o-m in August), although they remain relatively weak overall. In addition, the number of people in employment has been gradually picking up this year, and the effects of legislation geared towards making the labour market more flexible – particularly the so-called Hartz IV reforms that will be implemented next January – point to the possibility of an upturn in consumption further down the line. Our panel does anticipate a recovery in consumer spending, with a consensus forecast of 1.0% growth compared to no growth this year. Nevertheless, the current underlying weakness is underscored by the decision of Germany's largest retailer, KarstadtQuelle, to close a number of stores after seeing sales drop over the past three years.

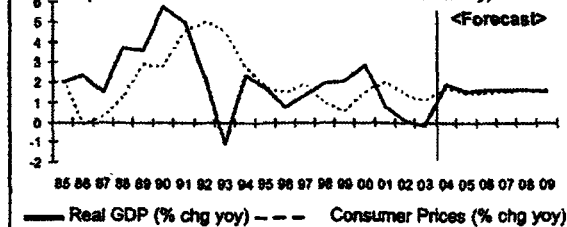
The backbone of the recovery to date has been the industrial sector, with surging demand for exports at the heart of the upturn. While global demand remains relatively robust, the effects of a deceleration in activity in the US and Asia – regions which have exhibited robust GDP growth over the past year – are, most analysts believe, likely to result in less pronounced growth in foreign demand. Indeed, the federation of German industries (the BDI) forecasts exports to increase by 6% in 2005, compared to 9% this year. A 2.0% slide in manufacturing orders from overseas was behind a 1.5% m-o-m decline in total orders in August. Industrial production also dipped during the month, by 1.0% m-o-m, which despite the volatile nature of the data, underscored the belief that the pronounced expansion in industry during the first half of the year will not be matched in the final two quarters. A further cloud on the horizon is the surging price of oil, which has prompted the Vice-President of the Bundesbank to voice his concern over its potential negative impact on future GDP growth.

Direction of Trade – 2003

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
France	10.5	France	9.4
United States	9.2	Netherlands	6.7
United Kingdom	8.2	United States	6.7
Eastern Europe	13.6	Eastern Europe	15.6
Asia (inc. Japan)	7.3	Asia (inc. Japan)	10.4
Middle East	2.6	Latin America	1.8

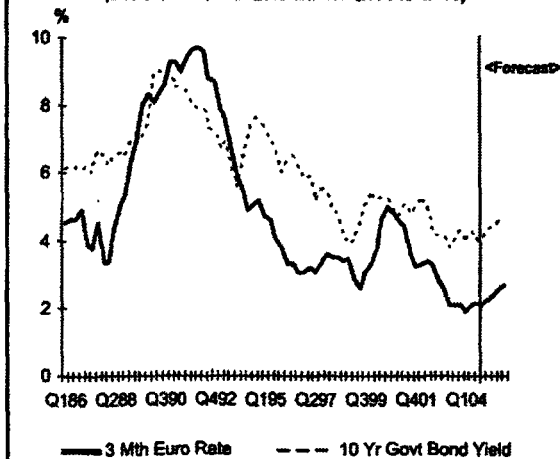
Real Growth and Inflation

(data for 1985-1991 are for former West Germany)



Short- and Long-Term Interest Rates

(short rate = 3 mth Euro-Dm for Q186 to Q498)



	Average % Change on Previous Calendar Year											
	Gross Domestic Product		Household Consumption		Business Investment		Industrial Production (excl. construction, energy and food)		Consumer Prices		Hourly Wage Rates	
	Produit Intérieur Brut		Consommation des Ménages		Investissements des Entreprises		Production Industrielle (hors énergie et IAA)		Prix à la Consommation		Taux de Salaire Horaire	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Credit Comm de France	2.7	2.5	2.4	2.3	4.4	5.4	2.2	2.7	2.1	1.7	2.8	2.6
BIPE	2.6	2.5	2.5	2.8	4.9	7.2	2.7	3.7	2.1	1.9	2.8	2.7
Goldman Sachs	2.6	2.3	2.3	2.1	4.9	7.3	3.2	4.5	2.2	1.9	2.1	2.5
Bank of America	2.5	2.8	2.5	2.4	na	na	2.0	2.9	2.2	1.7	2.8	3.2
Centre Prev l'Expansion	2.5	1.8	2.4	2.1	4.8	4.8	2.7	1.3	2.0	1.8	2.5	2.5
COE - CCIP	2.5	2.4	2.4	2.2	4.8	6.1	na	na	2.2	1.7	2.8	2.7
Credit Agricole	2.5	2.1	2.3	1.9	4.8	5.1	2.1	1.9	2.2	1.8	2.4	2.5
HSBC	2.5	2.0	2.3	2.2	na	na	1.9	0.9	2.3	1.8	na	na
OFCE	2.5	2.6	2.5	2.6	4.5	6.9	na	na	2.2	2.0	2.5	3.1
Rexcode	2.5	2.2	2.4	1.9	4.8	6.0	na	na	2.2	2.0	2.8	3.0
Total	2.5	2.7	2.3	2.4	3.9	5.3	2.2	3.5	2.0	1.7	na	na
UBS	2.5	2.1	2.3	2.9	3.7	3.9	1.7	2.2	2.4	1.8	na	na
BNP-Paribas	2.4	2.5	2.3	2.3	4.0	5.5	2.1	3.5	2.1	1.4	2.9	3.0
CDC DGS	2.4	1.9	2.4	1.7	4.0	4.8	2.2	4.0	2.2	2.0	na	na
Exane	2.4	1.5	2.3	1.5	4.6	5.9	3.5	2.8	2.2	2.0	2.6	2.5
GAMA	2.4	2.4	2.3	2.2	4.2	5.0	na	na	2.2	1.8	na	na
ING Financial Markets	2.4	2.2	2.5	2.3	3.5	3.0	2.5	2.8	2.3	1.4	2.8	2.9
JP Morgan	2.4	2.3	2.3	2.0	4.0	3.6	na	na	2.1	1.3	na	na
Natexis Banque Populaire	2.4	2.0	2.4	2.0	4.1	3.8	2.2	2.0	2.2	1.9	2.6	2.8
Societe Generale	2.4	2.2	2.4	2.0	4.5	5.5	na	na	2.2	1.9	2.9	3.2
Morgan Stanley	2.4	2.1	2.4	2.2	3.9	3.4	2.5	2.8	2.1	1.4	2.5	2.0
FAZ Institut	2.3	2.1	2.4	2.2	3.9	4.2	2.2	2.6	2.3	1.8	na	na
Econ Intelligence Unit	2.3	2.4	2.4	2.6	na	na	na	na	2.3	1.9	na	na
Consensus (Mean)	2.5	2.2	2.4	2.2	4.3	5.1	2.4	2.7	2.2	1.8	2.7	2.7
Last Month's Mean	2.5	2.3	2.4	2.2	4.2	5.1	2.3	2.8	2.2	1.7	2.7	2.7
3 Months Ago	2.1	2.1	2.2	2.0	3.1	4.3	2.1	2.6	2.1	1.7	2.7	2.8
High	2.7	2.7	2.5	2.9	4.9	7.3	3.5	4.5	2.4	2.0	2.9	3.2
Low	2.3	1.5	2.3	1.5	3.5	3.0	1.7	0.9	2.0	1.3	2.1	2.0
Standard Deviation	0.1	0.3	0.1	0.3	0.4	1.2	0.5	1.0	0.1	0.2	0.2	0.3
Comparison Forecasts												
Government (Sep. '04)	2.5	2.5	2.4	2.4	4.3	4.7			2.2	1.8		
Eur Commission (Apr. '04)	1.7	2.4	1.7	2.3								
IMF (Sep. '04)	2.6	2.3	2.5	2.5								
OECD (May '04)	2.0	2.6	1.7	2.5								

Government and Background Data

President - Mr. Jacques Chirac (UMP). Prime Minister - Mr. Jean-Pierre Raffarin (UMP). Parliament - The centre-right Union for a Popular Movement (UMP) has 353 out of the 577 seats in the National Assembly. Next Elections - 2007 (presidential). Nominal GDP - Euro1,558bn (2003). Population - 60.1mn (mid-year, 2003). \$/Euro Exchange Rate - 1.131 (average, 2003).

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	4.2	2.1	1.1	0.5
Household Consumption*	3.0	2.7	1.8	1.7
Business Investment*	9.1	3.5	-3.8	-1.6
Industrial Production*	5.1	0.8	-1.9	-0.9
Consumer Prices*	1.7	1.6	2.0	2.1
Hourly Wage Rates*	5.2	4.2	3.6	2.8
Unemployment Rate, %	9.4	8.7	9.1	9.8
Current Account, Euro bn	19.5	24.0	15.4	4.8
Public Sector Budget				
Balance, Euro bn	-20.0	-22.5	-49.8	-64.6
3 mth Euro, % (end yr)	4.8	3.3	2.9	2.1
10 Yr French Govt Bond, % (end yr)	5.0	5.1	4.2	4.4

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	1.7	3.0	2.7	2.7	2.6	2.2	2.2	2.3	2.4	2.3		
Household Consumption	1.8	2.7	2.5	2.5	2.2	2.0	2.2	2.3	2.4	2.3		
Consumer Prices	1.8	2.4	2.3	2.0	1.9	1.7	1.7	1.7	1.8	1.8		

Percentage Change (year-on-year).

Year Average		Annual Total		Rates on Survey Date					
Unemployment Rate (%)		Current Account (Euro bn)	Public Sector Budget Balance (Euro bn)	2.1%		4.0%			
Taux de Chômage (%)		Solde Courant (Euro md)	Balance Budgétaire (Euro md)	Taux d'intérêt 3 mois Euro (%)		Rendement des obligations d'Etat 10 ans (%)			
2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05		
9.8	9.5	0.0	4.0	-58.0	-50.0	2.1	2.1	4.4	4.8
9.8	9.5	10.8	14.3	-59.2	-52.7	2.1	2.5	4.2	4.8
9.8	9.6	na	na	-54.0	-43.5	2.2	2.7	4.5	4.4
9.9	9.6	11.9	9.8	na	na	na	na	na	na
9.8	9.5	na	na	-61.5	-50.3	2.1	2.3	4.2	4.5
9.8	9.5	-5.5	-4.4	-59.7	-55.9	2.4	2.4	4.4	4.7
9.9	9.7	2.6	8.5	-59.0	-53.0	2.2	2.7	4.5	5.0
9.9	10.0	na	na	na	na	2.1	1.8	4.2	4.5
9.8	9.4	0.9	-3.0	-59.7	-47.6	2.3	2.4	4.3	4.5
9.8	9.6	-1.7	-2.2	-62.5	-51.0	2.1	2.5	4.5	5.0
9.7	9.5	10.0	15.0	-62.0	-56.0	2.1	2.3	4.4	4.8
9.8	9.5	0.2	-1.7	-58.5	-50.3	2.1	2.1	4.2	4.5
9.8	9.5	-7.0	-11.0	-59.0	-46.0	2.6	3.3	4.4	4.9
9.8	9.8	-1.2	3.0	-58.7	-55.9	2.1	2.4	4.0	4.4
9.9	10.1	16.0	12.0	-53.0	-55.0	2.0	2.0	4.3	4.5
9.8	9.6	na	na	na	na	2.1	2.4	4.3	4.7
9.8	9.4	na	na	na	na	2.1	2.1	4.4	4.9
9.8	9.0	9.0	15.0	-59.0	-51.0	2.6	3.5	4.8	5.1
9.8	9.6	5.0	7.0	-61.0	-55.0	2.2	2.7	4.3	5.0
9.8	9.7	0.0	-5.0	-60.0	-55.0	2.2	2.6	4.4	4.6
9.8	9.4	-4.9	5.1	-61.7	-49.9	2.5	3.2	4.3	4.7
9.7	9.5	11.8	13.8	-62.0	-57.0	na	na	na	na
10.1	9.9	na	na	na	na	na	na	na	na
9.8	9.6	3.4	4.7	-59.4	-52.0	2.2	2.5	4.3	4.7
9.8	9.5	4.3	6.1	-61.0	-54.5				
9.8	9.6	8.2	9.9	-63.2	-58.2				
10.1	10.1	16.0	15.0	-53.0	-43.5	2.6	3.5	4.8	5.1
9.7	9.0	-7.0	-11.0	-62.5	-57.0	2.0	1.8	4.0	4.4
0.1	0.2	7.0	8.1	2.5	3.8	0.2	0.4	0.2	0.2
9.6	9.4								
9.9	9.6								

2004 Outlook Firm But Downside Risks Remain

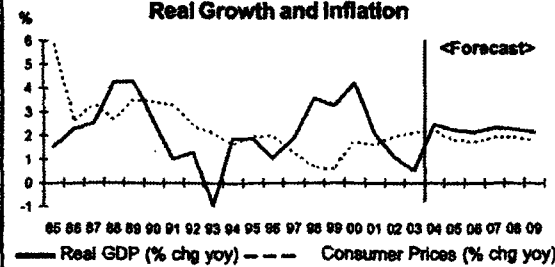
Despite the final national accounts report for the second quarter showing real GDP growth revised down to 2.8% from a previous estimate of 3.0% (y-o-y), the outlook for both 2004 and 2005 remains relatively upbeat. This is due to the fact that domestic demand continued to drive the recovery during the second quarter. Moreover, more recent indicators suggest that domestic activity remains robust. Industrialist sentiment rose in September on the back of improved output expectations, and consensus forecasts for both business investment and production forecasts for 2004 rose again this month. Consumer confidence also increased, but consumption of manufactured products slipped from growth of 2.9% m-o-m in July to 0.5% in August. Spending does tend towards volatility during the summer months, however, and it is hoped that consumption data going into the autumn will show a more positive return to form. This will depend mainly on the labour market environment, however. The unemployment rate rose to 9.9% in August after dropping to 9.8% in July. Moreover, employment, while growing by 0.1% q-o-q during the April-June period, shows only a modest improvement. Quite simply, GDP growth, while relatively robust compared with activity in Germany or Italy, for example, is not strong enough to ensure buoyant job creation and, therefore, sustain the current pace of household consumption growth over the medium-term. Indeed, the national statistics office's (INSEE) quarterly assessment of the French economy expects domestic demand to moderate slightly in the second half of this year and going into 2005. Consequently, GDP growth is also projected to slow.

In an effort to support consumer spending, the government's 2005 budget focused on raising the minimum wage, household tax breaks and introducing measures to create 190,000 new jobs next year. Analysts, however, remain unconvinced about the government's ability to boost employment growth and have also pointed to any tax system overhaul. Forecasts for the budget deficit next year, however, have dropped as a result of an expected boost to the fiscal accounts in 2005 from a €6.9 bn injection due to the planned partial privatization of Electricité de France next year.

Direction of Trade - 2003

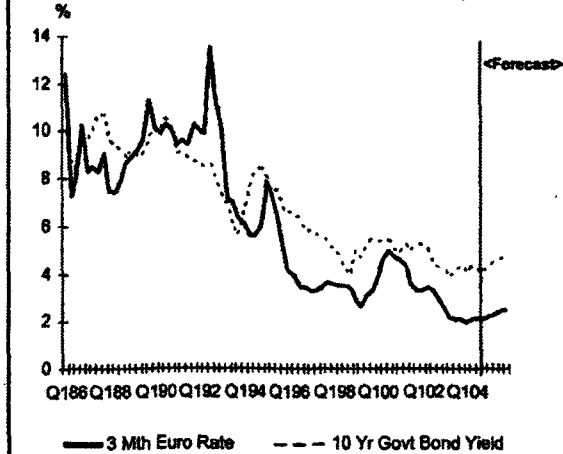
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
Germany	14.9	Germany	19.1
Spain	9.6	Belgium	9.4
United Kingdom	9.4	Italy	9.1
Eastern Europe	8.5	Asia (inc. Japan)	6.3
Asia (inc. Japan)	5.4	Eastern Europe	5.8
Africa	5.2	Africa	4.1

Real Growth and Inflation



Short- and Long-Term Interest Rates

(short rate = 3 mth Euro-Ffr for Q186 to Q498)



	Average % Change on Previous Calendar Year																		
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Company Trading Profits		Manufacturing Production		Retail Prices (underlying rate)		Consumer Prices Index (HICP)		Output Prices		Average Earnings		
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	
Lombard Street Research	3.6	3.0	3.4	2.7	6.0	4.0	na	na	na	na	2.4	2.9	1.4	1.8	na	na	4.4	4.8	
ITIF Club	3.5	3.0	3.0	2.8	7.1	3.7	9.6	6.5	1.7	3.0	2.2	2.7	1.7	1.9	2.0	3.0	4.8	4.7	
Lloyds TSB Financial Markets	3.5	2.7	3.0	2.2	6.0	4.0	7.6	5.5	1.4	2.3	2.1	2.4	1.5	1.9	2.0	2.5	4.3	4.6	
Barclays Capital	3.5	3.1	3.1	2.6	6.6	6.3	na	na	1.8	2.5	2.3	2.6	1.3	2.0	2.4	2.6	4.7	4.7	
ABN Amro	3.4	2.4	3.0	2.6	5.6	3.4	na	na	na	na	2.2	1.9	1.5	1.7	na	na	na	na	
Confed of British Industry	3.4	2.8	2.9	2.3	4.4	3.9	6.2	4.7	1.7	2.3	2.2	2.1	1.4	1.7	2.0	1.8	4.5	4.1	
Goldman Sachs	3.4	2.7	3.0	2.0	6.8	4.1	7.5	4.2	1.8	2.0	2.2	2.0	1.4	1.9	2.3	2.1	4.7	4.6	
HBOS	3.4	2.7	3.2	2.5	5.0	4.2	na	na	1.5	2.0	2.4	2.3	1.5	1.8	1.8	2.0	4.4	4.3	
Maniil Lynch	3.4	2.8	3.4	2.4	7.0	7.2	na	na	na	na	2.3	2.5	1.4	1.8	na	na	4.2	4.8	
Williams de Broe	3.4	2.7	3.4	2.8	6.6	3.7	na	na	1.2	0.9	2.3	2.6	1.3	1.7	1.6	1.7	4.4	4.6	
UBS	3.4	2.7	3.2	2.3	6.6	4.6	na	na	1.9	2.2	2.2	2.4	1.4	1.8	na	na	4.3	4.5	
Morgan Stanley	3.3	2.5	3.1	2.1	5.5	3.5	na	na	1.3	1.6	2.3	2.5	1.4	1.6	na	na	4.4	4.0	
Credit Suisse First Boston	3.3	2.6	3.3	2.5	6.8	6.3	na	na	na	na	na	na	1.6	1.5	na	na	na	na	
Capital Economics	3.3	2.3	3.0	1.0	6.5	3.0	8.9	5.4	1.5	2.5	2.3	2.2	1.5	1.7	2.5	2.0	4.4	4.7	
Citigroup	3.3	3.3	3.2	2.2	7.4	11.1	7.3	6.7	1.2	1.5	2.3	3.1	1.5	2.0	2.5	2.0	4.6	4.8	
Global Insight	3.3	2.6	2.8	2.2	5.5	3.5	na	na	1.3	2.3	2.3	2.6	1.5	1.9	2.3	1.9	4.4	4.5	
HSBC	3.3	2.0	3.1	2.0	5.7	3.1	na	na	1.8	2.2	2.2	2.4	1.4	1.9	na	na	4.4	3.6	
ING Financial Markets	3.3	2.7	2.8	2.2	6.1	6.4	na	na	1.0	1.8	2.2	2.1	1.4	1.7	2.0	2.0	4.3	4.2	
Oxford - LBS	3.3	2.6	3.3	2.6	6.5	4.7	3.7	4.8	1.1	1.9	2.2	2.3	1.4	1.8	1.8	1.8	4.3	4.3	
RBS Financial Markets	3.3	2.7	3.2	2.7	7.0	4.6	11.7	10.6	1.5	1.4	2.2	2.3	1.3	1.6	2.5	2.4	4.5	4.5	
Experien Business Strategies	3.2	2.7	3.1	2.0	6.6	3.9	7.5	-2.1	1.2	1.8	2.3	2.7	1.4	2.1	2.4	2.2	4.8	5.2	
Lehman Brothers	3.2	2.3	3.0	1.8	6.7	3.6	na	na	0.7	1.4	2.2	2.5	1.3	1.7	2.4	2.5	4.4	4.4	
Schroders	3.2	2.7	3.2	2.7	5.6	3.6	8.3	5.7	1.6	2.7	2.1	2.8	1.4	1.8	na	na	4.8	4.8	
JP Morgan	3.1	2.4	2.9	1.9	7.0	5.3	na	na	na	na	2.3	2.5	1.4	1.5	2.3	2.3	na	na	
Cambridge Econometrics	3.0	2.9	2.9	2.8	5.6	4.2	4.6	4.1	1.5	2.3	2.5	2.0	na	na	na	na	4.8	4.5	
Economic Perspectives	2.9	0.5	2.6	1.2	4.5	-3.5	8.5	-2.5	1.1	0.9	2.4	2.2	1.5	1.6	2.3	2.0	4.2	4.0	
Liverpool Macro Research	2.5	2.2	2.3	2.0	na	na	na	na	na	na	2.4	2.0	na	na	na	na	4.1	3.8	
Consensus (Mean)	3.3	2.6	3.1	2.3	6.2	4.3	7.6	4.5	1.4	2.0	2.3	2.4	1.4	1.8	2.2	2.2	4.5	4.5	
Last Month's Mean	3.3	2.6	3.0	2.4	5.7	4.2	6.7	4.7	1.6	2.2	2.3	2.4	1.5	1.8	2.0	2.2	4.5	4.5	
3 Months Ago	3.2	2.7	3.0	2.4	5.5	4.3	7.0	5.9	1.6	2.3	2.4	2.4	1.5	1.8	1.9	1.9	4.5	4.4	
High	3.6	3.3	3.4	2.8	7.4	11.1	11.7	10.6	1.9	3.0	2.5	3.1	1.7	2.1	2.5	3.0	4.8	5.2	
Low	2.5	0.5	2.3	1.0	4.4	-3.5	3.7	-2.5	0.7	0.9	2.1	1.9	1.3	1.5	1.6	1.7	4.1	3.6	
Standard Deviation	0.2	0.5	0.2	0.5	0.8	2.3	2.1	3.6	0.3	0.6	0.1	0.3	0.1	0.2	0.3	0.3	0.2	0.4	
Comparison Forecasts																			
Treasury (Apr. '04)	3.3	3.3	3.1	2.5	5.6	6.6													
Eur Commission (Apr. '04)	3.0	2.8	2.9	2.1	6.4	5.8							1.6	1.9					
IMF (Sep. '04)	3.4	2.5	2.7	2.3	6.3	3.5							1.6	1.9					
OECD (May '04)	3.1	2.7	3.6	2.6	6.4	6.0													

Government and Background Data

Prime Minister - Mr. Tony Blair (Labour). Parliament - The Labour party has a majority in the 659 seat House of Commons (lower house). Next Elections - By 2006 (general election). Nominal GDP - £1,099bn (2003). Population - 59.3mn (mid-year, 2003). \$/£ Exchange Rate - 1.634 (average, 2003).

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold *italics*) From Survey of September 13, 2004

	2004				2005				2006					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross Domestic Product	3.4	3.7	3.3	2.9	2.8	2.5	2.4	2.3	1.9	1.9				
Household Consumption	3.0	3.2	2.9	2.8	2.7	2.2	2.2	2.1	1.8	1.9				
Retail Prices (underlying rate)	2.3	2.2	2.2	2.3	2.3	2.4	2.3	2.4	2.4	2.4				

Percentage Change (year-on-year).

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	3.9	2.3	1.8	2.2
Household Consumption*	4.4	3.1	3.2	2.3
Gross Fixed Investment*	3.6	2.6	2.7	2.2
Company Trading Profits*	-0.4	-2.3	4.6	8.2
Manufacturing Production*	2.4	-1.3	-3.1	0.4
Retail Prices (underlying rate)*	2.1	2.1	2.2	2.8
Consumer Prices Index (HICP)*	0.8	1.2	1.3	1.3
Output Prices*	1.5	-0.3	0.1	1.5
Average Earnings*	4.5	4.4	3.6	3.3
Unemployment Rate, %	3.6	3.2	3.1	3.0
Current Account, £ bn	-19.1	-22.4	-18.2	-20.4
Public Sector Net Cash Requirement, fiscal yrs, £ bn	-37.2	3.4	24.8	39.7
3 mth Interbank, % (end yr)	5.8	4.1	3.9	4.0
10 Yr Gilt Yields, % (end yr)	4.9	5.0	4.4	4.8

Year Average	Annual Total		Fiscal Years (Apr-Mar)		Rates on Survey Date				
	Current Account (£ bn)		Public Sector Net Cash Req. (£ bn)		4.9%		4.8%		
Unemployment Rate (%)					3 month Interbank Rate (%)		10 Year Gilt Yield (%)		
2004	2005	2004	2005	FY 04-05	FY 05-06	End Jan'05	End Oct'05	End Jan'05	End Oct'05
2.7	2.8	-20.0	-17.0	36.0	34.0	5.1	5.5	4.9	5.3
2.7	2.4	-24.0	-20.0	40.0	41.0	na	na	na	na
2.7	2.6	-25.0	-32.0	38.6	43.6	5.0	5.1	5.2	5.4
2.8	2.6	-24.7	-33.1	30.0	22.8	5.3	5.1	5.2	5.2
na	na	na	na	na	na	na	na	na	na
2.7	2.8	-23.2	-28.6	na	na	na	na	na	na
2.7	2.4	-25.4	-31.1	38.2	38.6	5.3	5.5	4.9	4.9
2.7	2.8	-27.5	-34.7	37.0	38.0	5.1	5.0	5.1	5.0
2.8	2.7	-30.0	-28.0	38.0	37.0	5.3	5.1	5.1	5.3
2.8	2.5	-23.9	-30.2	36.5	41.7	4.7	4.7	5.0	5.1
2.7	2.7	-24.7	-25.0	36.0	30.0	5.2	5.4	5.1	5.0
na	na	na	na	na	na	5.0	4.9	5.1	5.4
na	na	na	na	33.0	30.0	6.0	6.0	na	na
2.7	2.5	-25.0	-15.0	38.0	39.0	5.2	4.8	5.0	4.8
2.7	2.2	-24.8	-24.1	32.0	30.0	5.1	5.8	5.2	5.7
2.8	2.7	-24.7	-22.6	36.5	35.6	5.0	5.3	5.1	5.3
2.8	3.0	-25.0	-28.0	35.0	38.0	5.1	4.8	5.2	5.1
2.7	2.7	-29.0	-31.0	38.0	38.0	5.1	5.1	5.0	5.0
2.7	2.5	-27.4	-33.0	34.5	35.3	5.0	5.0	4.8	4.9
2.7	2.6	-22.4	-21.1	32.5	31.0	5.1	4.9	5.1	5.3
2.7	2.7	-25.4	-31.6	26.9	34.5	4.9	5.1	5.0	4.8
2.8	2.8	-23.4	-20.0	38.0	38.0	4.9	4.8	4.9	4.9
2.8	2.8	-32.0	-33.0	35.3	39.0	5.0	5.0	4.9	5.1
2.7	2.5	-28.7	-35.9	32.0	30.0	4.9	4.9	4.9	5.0
3.0	3.0	-24.3	-22.1	na	na	na	na	na	na
2.8	3.5	-28.0	-24.0	41.0	48.0	4.8	4.5	4.7	4.5
3.1	3.4	-30.3	-38.4	28.1	30.5	4.8	5.1	na	na
2.8	2.7	-25.8	-27.4	35.3	35.7	5.0	5.0	5.0	5.1
2.8	2.7	-25.6	-27.8	35.4	35.4				
2.8	2.8	-26.6	-28.1	36.0	35.9				
3.1	3.5	-20.0	-15.0	41.0	48.0	6.3	5.6	5.2	5.7
2.7	2.2	-32.0	-38.4	26.9	22.8	4.7	4.5	4.7	4.5
0.1	0.3	2.8	6.3	3.7	5.5	0.2	0.3	0.1	0.3
		-32.8	-32.0						

The Beginning of a Slowdown?

There is growing evidence of a slowdown in the current expansion, as the housing market and consumer spending exhibit signs of cooling. Updated national accounts data show that the economy grew by 0.9% q-o-q in the second quarter – and by 3.6% in y-o-y terms – with the increase in household consumption revised down from 1.1% q-o-q to 0.6%. There was a similarly large upward revision in the first quarter, from 0.6% to growth of 1.2%. Meanwhile, the increase in gross fixed investment was upgraded to 2.4% from 1.4% previously. The new figures show the recovery becoming less reliant on consumption, although given that consumer activity accounts for roughly two-thirds of GDP, it remains vitally important to the outlook. Therefore, recent data showing retail sales growth easing somewhat from a few months ago – coupled with faltering consumer confidence and confirmation that the housing market is losing some of its buoyancy – suggest that a period of more restrained momentum in consumer spending is likely. Indeed, our panel foresees a more modest gain in household consumption next year – 2.3% – compared with this year's expected 3.1% advance. In addition, forward-looking indicators, such as the CBI distributive trades survey and the Purchasing Managers' Index for the services sector reveal more pessimistic expectations for the future. However, overall economic conditions remain largely favourable – as is evidenced by the consensus forecast of 2.6% growth in 2005 – and positive data from the corporate sector showing rising profits have, in turn, led to a boost in our panel's forecast.

The muted nature of the past month's data releases – including a steep 0.8% m-o-m fall in manufacturing production in August – led the Bank of England's Monetary Policy Committee to keep borrowing rates steady at its October 6-7 meeting. The repo rate remains at 4.75%, after having been incrementally raised from 3.5% last November. And, with the suspicion that the recovery may have peaked, an increasing number of analysts believe that the current cycle of interest rates hikes may be nearing an end. However, surging oil prices have resulted in an acceleration in producer output prices and remain a threat to price stability going forward.

Direction of Trade – 2003

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	15.8	Germany	13.8
Germany	10.5	United States	10.2
France	9.5	France	8.1
Asia (inc. Japan)	7.4	Asia (inc. Japan)	13.6
Eastern Europe	5.1	Eastern Europe	5.4
Middle East	4.2	Africa	2.8

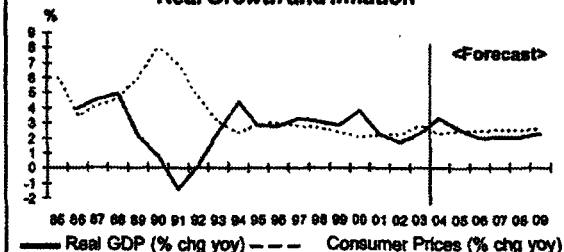
Likelihood of a Bank of England Interest Rate Change

Our panel's estimated average probability of a change in the repo rate within the next 30 days following the survey date was:

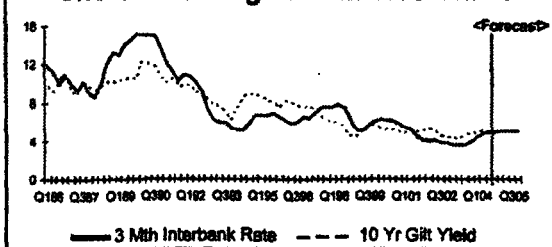
INCREASE	NO CHANGE	DECREASE	
43.8	+ 55.2	+ 1.0	= 100 %

Most likely rate change mentioned: +0.25%

Real Growth and Inflation



Short- and Long-Term Interest Rates



	Average % Change on Previous Calendar Year													
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Industrial Production		Consumer Prices		Producer Prices		Contractual Hourly Earnings	
	Prodotto Interno Lordo		Consumi delle Famiglie		Investimenti Fissi Lordi		Produzione Industriale		Prezzi al Consumo		Prezzi alla Produzione		Retribuzione Oraria Contrattuali	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Bank of America	1.3	2.1	1.4	1.9	3.6	2.8	na	na	2.2	2.1	1.7	1.7	2.4	2.6
Confindustria	1.3	1.8	1.3	1.8	3.2	2.8	na	na	2.3	2.1	na	na	na	na
ISAE	1.3	1.9	1.5	2.0	3.0	3.9	na	na	2.3	2.1	2.4	1.1	na	na
Banca Intesa	1.2	1.5	1.2	1.4	3.5	2.6	0.1	0.8	2.2	2.1	1.6	2.2	3.0	na
Econ Intelligence Unit	1.2	1.8	1.2	2.4	2.9	2.2	0.7	1.2	2.3	2.0	2.2	1.0	na	na
Citigroup	1.2	1.8	1.7	2.2	2.0	3.4	0.5	1.3	2.3	2.1	2.4	1.5	2.9	2.5
Fiat SpA	1.2	2.1	1.5	2.1	3.2	3.5	0.5	2.8	2.3	2.0	2.6	1.6	na	na
Goldman Sachs	1.2	1.8	1.4	1.8	1.9	2.5	0.2	3.1	2.2	2.2	2.5	2.6	na	na
ING Financial Markets	1.2	1.7	1.3	1.5	3.2	2.9	0.7	1.3	2.3	2.0	1.6	1.3	2.8	2.5
JP Morgan	1.2	1.8	1.3	1.7	3.4	2.8	0.2	1.8	2.3	2.1	na	na	na	na
Morgan Stanley	1.2	1.5	1.3	1.3	3.4	2.1	0.3	2.7	2.3	1.9	2.4	1.3	2.8	2.5
Ref.	1.2	1.9	1.3	1.7	3.3	3.6	0.3	4.0	2.3	2.4	2.8	3.3	2.8	2.7
UniCredit Banca Mobiliare	1.2	1.8	1.4	1.7	2.9	2.9	0.2	2.2	2.3	2.2	na	na	na	na
Banca IMI	1.1	1.9	1.2	2.0	2.4	4.6	1.1	2.8	2.4	2.5	2.5	2.3	2.6	2.6
Capitalia	1.1	1.6	1.2	1.7	3.0	2.7	0.5	1.6	2.3	2.3	3.3	1.8	2.7	2.5
Centro Europa Ricerche	1.1	1.9	1.4	1.5	2.3	3.1	na	na	2.3	2.4	na	na	na	na
FAZ Institut	1.1	1.9	1.5	2.0	2.6	2.8	0.8	2.2	2.3	2.0	na	na	na	na
Prometeia	1.1	2.3	1.8	2.4	2.6	3.3	0.7	2.0	2.4	2.1	2.9	0.9	2.5	2.0
ENI	1.0	1.9	1.5	1.9	2.4	3.2	0.5	2.1	2.3	2.1	2.4	2.2	2.8	2.6
Consensus (Mean)	1.2	1.8	1.4	1.8	2.9	3.0	0.5	2.1	2.3	2.1	2.4	1.8	2.7	2.5
Last Month's Mean	1.2	1.8	1.5	1.9	2.5	2.8	0.7	2.2	2.3	2.1	2.2	1.8	2.7	2.5
3 Months Ago	1.1	1.9	1.5	1.9	1.9	2.7	1.0	2.3	2.3	2.1	2.0	1.5	2.6	2.5
High	1.3	2.3	1.8	2.4	3.6	4.6	1.1	4.0	2.4	2.5	3.3	3.3	3.0	2.7
Low	1.0	1.5	1.2	1.3	1.9	2.1	0.1	0.8	2.2	1.9	1.6	0.9	2.4	2.0
Standard Deviation	0.1	0.2	0.2	0.3	0.5	0.6	0.3	0.8	0.1	0.2	0.5	0.7	0.2	0.2
Comparison Forecasts														
Government (Jul. '04)	1.2	2.1	1.5	2.1	1.9	3.9			2.1	1.8				
Eur Commission (Apr. '04)	1.2	2.1	1.5	2.1	1.8	3.3								
IMF (Sep. '04)	1.4	1.9	1.3	2.1	3.6	2.4								
OECD (May '04)	0.9	1.9	1.0	2.4	0.0	5.2								

Government and Background Data

Prime Minister - Mr. Silvio Berlusconi (Forza Italia). Parliament - A centre-right coalition, known as the *Casa delle Libertà*, has majorities in both the Chamber of Deputies (lower house) and the Senate (upper house). Next Elections - by 2006 (parliamentary). Nominal GDP - Euro1,301bn (2003). Population - 57.4mn (mid-year, 2003). \$/Euro Exchange Rate - 1.131 (average, 2003).

Quarterly Consensus Forecasts
Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004				2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	0.8	1.2	1.1	1.5	1.5	1.6	1.8	2.0	2.0	2.1
Household Consumption	1.7	1.0	1.1	1.6	1.1	1.9	2.0	2.1	2.1	2.1
Consumer Prices	2.2	2.4	2.3	2.4	2.4	2.3	2.2	2.0	1.9	1.9

Percentage Change (year-on-year)

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	3.2	1.7	0.4	0.4
Household Consumption*	2.8	0.8	0.4	1.2
Gross Fixed Investment*	7.3	1.6	1.3	-2.1
Industrial Production*	4.1	-1.2	-1.3	-0.4
Consumer Prices*	2.5	2.7	2.5	2.7
Producer Prices*	6.0	1.9	0.2	1.6
Contractual Hourly Earnings*	1.9	2.5	2.1	2.2
Unemployment Rate,%	10.6	9.6	9.0	8.7
Current Account, Euro bn	-6.3	-0.7	-10.0	-18.4
State Sector Borrowing				
Requirement, Euro bn	-27.4	-33.5	-30.8	-42.7
3 mth Euro, % (end yr)	4.8	3.3	2.9	2.1
10 yr Italian Govt Bond, % (end yr)	5.2	5.2	4.3	4.5

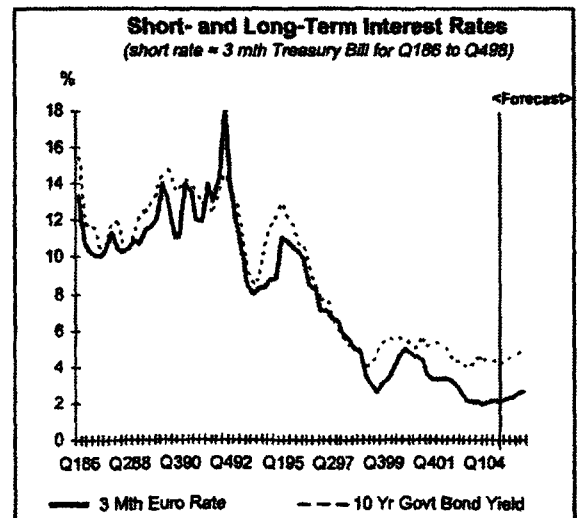
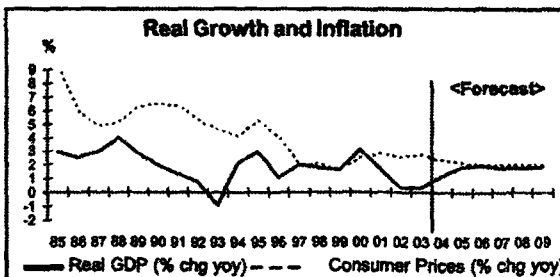
Year Average	Annual Total				Rates on Survey Date				
	Current Account (Euro bn)		State Sector Borrowing Requirement (Euro bn)		2.1%		4.1%		
Unemployment Rate (%)					3 month Euro Rate (%)		10 Year Italian Govt Bond Yield (%)		
Tasso di Disoccupazione (%)	Partite Correnti (Euro mld)		Fabbisogno del Settore Statale (Euro mld)		Interessi Euro Trimestrali (%)		Buoni del Tesoro Decennali (%)		
2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
8.2	8.1	-21.1	-19.3	na	na	na	na	na	na
8.1	7.8	-19.4	-18.8	na	na	na	na	na	na
na	na	na	na	na	na	na	na	na	na
8.4	8.1	-11.7	na	-61.1	-69.0	2.2	2.7	4.7	4.9
8.6	8.8	na	na	na	na	na	na	na	na
8.2	8.2	-14.0	-15.0	-62.0	-69.0	2.2	2.6	4.5	5.0
8.2	8.0	-16.0	-16.0	-52.0	-56.0	2.3	2.8	4.6	5.1
8.4	8.6	na	na	na	na	na	na	na	na
8.6	8.4	-19.5	-18.6	-52.8	-51.0	2.1	2.1	4.7	4.7
8.5	8.1	-14.3	-13.8	na	na	2.4	3.0	4.3	4.7
8.1	7.7	-15.6	-17.6	-61.9	-58.6	2.3	2.8	4.2	4.6
8.2	8.0	-19.7	-22.5	-52.0	-64.4	2.1	2.6	4.4	4.4
8.1	7.9	na	na	na	na	na	na	na	na
8.6	8.6	-18.5	-19.9	-58.0	-51.0	2.4	2.7	4.4	4.9
8.4	8.2	-14.5	-14.0	-60.0	-62.0	2.1	2.6	4.3	4.6
8.5	8.4	-18.9	-18.8	na	na	2.2	2.6	4.3	4.8
8.6	8.3	-17.2	-14.4	na	na	na	na	na	na
8.4	8.0	-24.6	-21.7	-61.3	-59.0	2.1	2.4	4.4	4.6
8.6	8.3	-12.3	-8.1	-54.8	-61.5	2.1	2.4	4.4	4.8
8.4	8.2	-17.3	-17.0	-57.6	-60.1	2.2	2.6	4.4	4.8
8.6	8.4	-17.0	-17.3	-56.1	-58.8				
8.6	8.4	-17.9	-17.6	-55.0	-59.0				
8.6	8.8	-11.7	-8.1	-52.0	-51.0	2.4	3.0	4.7	5.1
8.1	7.7	-24.6	-22.5	-62.0	-69.0	2.1	2.1	4.2	4.4
0.2	0.3	3.5	3.8	4.3	6.4	0.1	0.2	0.1	0.2
8.7	8.2								
8.6	8.5								
8.3	8.2								
8.6	8.5								

More Mixed Signals

Data releases over the past month have reaffirmed the impression that, while the domestic economy is growing moderately, it remains devoid of any significant positive momentum that could lead to a more vigorous phase of recovery. Industrial production, for instance, rebounded in July, rising by 0.4% m-o-m after two successive months of decline. However, the underlying trend remains fairly weak, with little more than a gentle increase in production now likely for the year as a whole: the consensus forecast points to a mere 0.5% advance. Turning to the consumer sector, retail sales declined by 0.4% m-o-m in July following June's 0.6% increase. This is a notoriously volatile indicator, but it does suggest that household consumption started the third quarter in a similar vein to the second, when a deterioration in sentiment led to a fall of 0.3% q-o-q. Consumer confidence, though, has strengthened over the past few months and, despite still being at historically low levels, reached its highest point this year in September as perceptions of economic activity improved and concern over inflation abated. This is likely due to a government initiative aimed at boosting consumption which (with the agreement of some large retailers and supermarkets) will freeze prices of certain food products. Consumer price inflation eased in September to 2.1% y-o-y - its lowest rate of increase since December 1999 - from 2.3% in August as transport costs fell (m-o-m) following the previous month's oil price-induced surge.

The government has approved the 2005 budget which includes €24bn in deficit-reducing measures that, it is hoped, will keep the deficit under the Euro zone's 3% of GDP ceiling. Without these steps - which include capping government spending at 2% in most departments and the selling-off of government assets - the deficit would reach 4.4% of GDP in 2005 (as estimated by the Treasury), instead of the 2.7% now predicted. Many economists do not share as optimistic an assessment of these plans as the government but, nevertheless, moves to slow government expenditure have been welcomed as beneficial to the long-term health of public finances. However, efforts to stimulate consumer spending by cutting taxes by €6bn were not included in the budget, although the government has said they will be introduced by the end of the year.

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
Germany	13.8	Germany	17.9
France	12.3	France	11.2
United States	8.5	Netherlands	6.8
Eastern Europe	13.5	Eastern Europe	12.0
Asia (inc. Japan)	5.9	Asia (inc. Japan)	7.8
Middle East	4.8	Middle East	5.0



	Average % Change on Previous Calendar Year												Annual Total					
	Gross Domestic Product		Personal Expenditure		Machinery & Equipment Investment		Pre - Tax Profits		Industrial Production		Consumer Prices		Industrial Product Prices		Average Hourly Earnings		Housing Starts (thousand units)	
	<i>Produit Intérieur Brut</i>		<i>Dépenses de Consommation des Ménages</i>		<i>Investissement Productif</i>		<i>Bénéfices des Sociétés avant impôts</i>		<i>Production Industrielle</i>		<i>Prix à la Consommation</i>		<i>Prix des Produits Industriels</i>		<i>Rémunération Horaire Moyenne</i>		<i>Construction de Logements neufs en chantier, milliers</i>	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
JP Morgan	3.2	4.1	3.3	3.2	8.4	7.3	16.5	11.7	3.6	5.0	1.9	2.4	3.8	2.8	na	na	226	206
Royal Bank of Canada	3.1	3.6	3.4	3.7	8.7	10.0	19.9	3.1	na	na	2.1	2.6	na	na	na	na	222	200
BMO Nesbitt Burns	3.0	3.3	3.3	3.2	8.0	9.0	15.0	5.5	3.3	2.9	1.8	2.0	3.7	3.0	3.2	3.5	225	200
Conf Board of Canada	3.0	3.2	3.3	3.4	7.6	8.3	17.8	6.5	na	na	1.9	1.9	3.9	3.0	1.9	1.9	225	196
Desjardins	3.0	3.6	3.3	3.4	7.3	7.4	13.5	7.5	na	na	1.9	2.3	4.3	0.6	2.2	2.5	226	205
EDC Economics	3.0	3.2	3.3	3.0	8.3	7.1	13.5	4.5	na	na	1.8	2.1	na	na	2.7	2.4	225	195
Global Insight	3.0	3.3	3.2	2.8	8.0	11.4	17.5	-4.5	3.2	2.7	1.8	1.6	3.1	-1.6	2.9	3.4	224	207
National Bank Financial	3.0	3.4	3.2	2.4	8.0	10.3	17.5	8.8	na	na	1.9	2.1	na	na	na	na	230	205
Toronto Dominion Bank	3.0	3.5	3.3	3.0	7.8	8.8	15.9	4.4	na	na	1.8	1.9	na	na	na	na	225	200
Bank of Montreal	2.9	3.5	3.4	3.1	7.6	9.1	16.2	3.7	na	na	1.8	1.4	na	na	na	na	222	190
Caisse de Depot	2.9	3.1	3.3	3.0	8.0	7.5	na	na	na	na	2.0	2.2	na	na	na	na	225	200
CIBC World Markets	2.9	3.0	3.2	2.7	7.2	6.6	17.5	8.4	na	na	1.9	2.4	na	na	na	na	226	195
Infometrics	2.9	3.5	3.2	3.1	8.0	15.0	13.5	15.0	3.8	4.5	1.8	2.1	4.3	3.0	2.7	2.9	219	189
Merrill Lynch Canada	2.9	3.2	3.2	2.5	7.6	7.6	na	na	3.3	3.4	1.8	1.9	na	na	na	na	226	190
University of Toronto	2.9	2.9	3.0	2.4	8.1	9.0	15.8	2.7	na	na	1.9	2.0	na	na	na	na	224	183
Consensus (Mean)	3.0	3.4	3.3	3.0	7.9	9.0	16.2	5.9	3.4	3.7	1.9	2.1	3.8	1.6	2.6	2.8	225	197
Last Month's Mean	2.9	3.3	3.3	3.0	8.0	8.8	14.7	5.1	3.4	3.6	1.9	2.0	3.4	2.2	2.7	3.0	224	195
3 Months Ago	2.9	3.4	3.3	3.1	7.8	8.6	12.0	5.1	3.0	3.5	1.8	2.0	2.7	2.5			221	192
High	3.2	4.1	3.4	3.7	8.7	15.0	19.9	15.0	3.8	5.0	2.1	2.6	4.3	3.0	3.2	3.5	230	207
Low	2.9	2.9	3.0	2.4	7.2	6.6	13.5	-4.5	3.2	2.7	1.8	1.4	3.1	-1.6	1.9	1.9	219	183
Standard Deviation	0.1	0.3	0.1	0.4	0.4	2.1	1.9	4.7	0.3	1.0	0.1	0.3	0.5	1.9	0.5	0.6	2	7
Comparison Forecasts																		
IMF (Sep. '04)	2.9	3.1	3.2	2.6							1.9	2.2						
OECD (May '04)	2.8	3.3	2.6	3.1														

Government and Background Data

Prime Minister - Mr. Paul Martin (Liberal). Government - The Liberals lead a minority government, with 135 out of 308 seats in parliament (155 seats are needed for a clear majority). Next Election - By 2009 (general election). Nominal GDP - C\$1,219bn (2003). Population - 31.5mn (mid-year, 2003). C\$/US Exchange Rate - 1.401 (average, 2003).

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004		2005								2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2
Gross Domestic Product	1.7	3.0	3.4	3.5	3.6	3.3	3.2	3.1	3.0	3.0	3.0	3.0
Personal Expenditure	3.7	3.2	2.7	3.2	2.7	3.0	3.1	3.1	3.0	3.0	3.0	3.0
Consumer Prices	0.8	2.2	2.2	2.4	2.4	2.0	1.9	1.8	1.8	1.8	1.8	1.8

Percentage Change (year-on-year)

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	6.2	1.8	3.4	2.0
Personal Expenditure*	4.0	2.7	3.4	3.1
Machinery & Eqpt Investment*	6.3	-2.2	-1.2	4.5
Pre - Tax Profits*	22.8	-6.9	8.8	10.0
Industrial Production*	7.2	-2.3	2.4	0.3
Consumer Prices*	2.7	2.5	2.3	2.8
Industrial Product Prices*	4.3	1.0	0.0	-1.4
Average Hourly Earnings*	2.0	1.7	2.2	1.8
Housing Starts, '000 units	152	163	205	218
Unemployment Rate, %	6.8	7.3	7.7	7.7
Current Account, C\$ bn	29.3	25.0	22.7	23.8
Federal Govt Budget Balance, fiscal years, C\$ bn	20.2	7.0	7.0	3.5 e
3 mth Trsy Bill, % (end yr)	5.5	2.1	2.7	2.6
10 Yr Govt Bond, % (end yr)	5.4	5.4	4.7	4.8

e = consensus estimate based on latest survey

		Annual Total		Fiscal Years (Apr-Mar)		Rates on Survey Date			
						2.5%		4.6%	
Unemployment Rate (%)		Current Account (C\$ bn)		Federal Govt Budget Balance (C\$ bn)		3 month Treasury Bill Rate (%)		10 Year Government Bond Yield (%)	
Taux de Chômage (%)		Balance Courante (C\$ md)		Balance Budgétaire (C\$ md)		Rendement sur les Bons du Trésor de 3 mois %		Rendement des Obligations d'Etat de 10 ans %	
2004	2005	2004	2005	FY 04-05	FY 05-06	End Jan'05	End Oct'05	End Jan'05	End Oct'05
7.2	6.8	40.0	43.2	4.0	3.0	3.0	4.5	5.4	6.2
7.3	7.0	42.5	46.7	na	na	3.0	3.8	4.9	5.1
7.2	7.0	36.5	29.0	4.0	4.0	3.0	3.8	4.8	5.2
7.2	6.9	40.8	40.4	6.2	6.2	3.0	3.3	5.8	6.3
7.3	6.8	36.8	38.6	4.0	5.5	2.6	3.4	4.8	5.0
7.2	7.2	33.0	30.0	4.5	4.2	2.5	3.3	5.2	5.9
7.2	7.2	47.7	62.1	3.0	3.0	3.0	3.4	5.3	5.5
7.3	7.1	36.9	28.5	5.0	6.0	2.8	4.0	5.0	5.9
7.3	7.0	35.7	30.3	3.2	3.0	3.0	4.1	5.0	5.4
7.3	7.1	35.0	26.5	na	na	2.8	3.4	5.0	5.4
7.3	7.2	32.0	25.0	7.0	4.0	2.8	3.3	4.9	5.0
7.3	7.2	38.0	34.2	3.0	4.0	2.9	2.9	4.4	4.2
7.1	6.9	35.0	28.0	3.9	4.0	2.8	3.8	5.1	5.6
7.2	7.0	34.7	28.0	na	na	na	na	na	na
7.2	7.1	37.8	36.7	na	na	3.0	3.6	5.0	5.6
7.2	7.0	37.5	35.1	4.3	4.2	2.9	3.6	5.0	5.4
7.3	7.0	36.8	33.0	4.7	4.9				
7.3	7.1	34.9	30.8	3.7	4.1				
7.3	7.2	47.7	62.1	7.0	6.2	3.0	4.5	5.8	6.3
7.1	6.8	32.0	25.0	3.0	3.0	2.5	2.9	4.4	4.2
0.1	0.1	4.0	9.9	1.3	1.0	0.2	0.4	0.3	0.6
7.2	6.8								
7.3	7.1								

Growth Expectations Edge Upward

Despite a disappointing monthly GDP release for July, the outlook remains upbeat and GDP growth forecasts for 2004 and 2005 have been upgraded this month. Output-based GDP managed only 0.1% growth m-o-m, compared with 0.4% in June, and the y-o-y trend slowed from 3.5% in the previous month to 3.1%. However, data from preceding months were revised upwards, which bodes well for this year's outlook. In addition, manufacturing and goods-producing industries helped to support activity. The weakness in the July figures came mainly from the non-business sector, while tourism was affected by a stronger C\$ and border delays. Despite this, GDP growth is expected to remain robust going into the third and fourth quarters. In fact, the economy is benefiting from positive terms of trade which have been buoyed by strong commodity, energy and oil prices and are undoubtedly helping to supplement export revenues. In addition, industry remains firm, with production rising by 0.3% m-o-m in July while new manufacturing orders jumped by 1.4% m-o-m. Shipments as a whole were a little more muted, rising by only 0.5% m-o-m compared with 1.5% in June, but the data still augurs well for third quarter industrial output data and, indeed, forecasts for production next year have also risen.

There are some downside risks to the growth outlook, however. First of all, analysts remain mindful of economic fundamentals in the US (Canada's most important trading partner), where the economy traversed a soft patch during the second quarter. Although signs suggest that activity south of the border is beginning to pick up pace again, the sustained strength of petrol prices could rein in US growth once more, thereby hurting demand for Canadian exports. Secondly, high oil prices are also focusing the spotlight on the inflation outlook and underscoring expectations of another interest rate hike by the Bank of Canada at its next meeting on October 19. Consumer prices actually fell by 0.2% m-o-m in August while the y-o-y trend in core inflation eased from 1.9% in July to 1.5%. However, more recent surges in oil prices could lift core price pressures again. Inflation forecasts for 2005 have edged upwards.

Direction of Trade - 2003

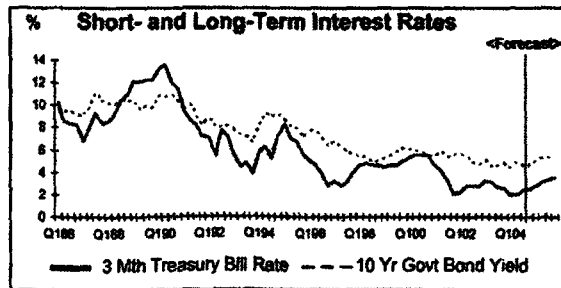
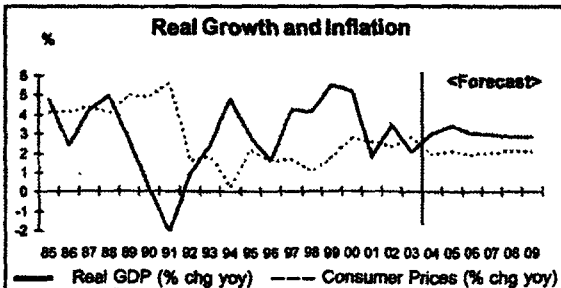
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	86.4	United States	61.2
Japan	2.1	China	5.3
United Kingdom	1.5	Japan	4.1
Asia (ex. Japan)	3.2	Asia (ex. Japan)	11.2
Latin America	1.4	Latin America	5.6
Middle East	0.4	Africa	1.2

Likelihood of a Bank of Canada Interest Rate Change

Our panel's estimated average probability of a change in the overnight lending rate at or before the next key policy meeting following the survey date was:

INCREASE	NO CHANGE	DECREASE	
80.9	+	18.9	+
		0.2	= 100 %

Most likely rate change mentioned: +0.25%



The EURO ZONE is: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.	Average % Change on Previous Calendar Year								Annual Total		Average % Change on Previous Calendar Year								Year Average		
	Gross Domestic Product		Private Consumption		Govt Consumption		Gross Fixed Investment		Change in Inventories (Euro bn)		Industrial Production		Consumer Prices		Industrial Producer Prices		Hourly Labour Costs		Unemployment Rate (%)		
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	
Bank Julius Baer	2.0	2.0	1.1	1.5	1.5	1.4	0.7	1.3	-5.5	-8.2	2.0	1.4	2.1	2.0	1.6	1.4	2.9	3.0	9.0	9.0	
Commerzbank	2.0	2.2	1.3	1.8	1.5	1.4	1.3	3.2	2.0	13.0	2.3	2.8	2.1	2.0	1.6	2.0	2.5	2.8	9.0	8.7	
ETLA	2.0	2.1	1.3	1.7	0.7	1.1	2.2	2.6	na	na	2.1	2.5	2.1	1.9	na	na	2.4	2.5	9.0	8.9	
Grupo Santander	2.0	2.3	1.3	2.0	1.5	1.1	1.0	3.7	3.0	2.0	na	na	2.1	1.7	na	na	na	na	9.0	8.7	
Goldman Sachs	2.0	1.9	1.2	1.6	1.6	1.8	1.1	3.2	3.2	3.7	2.7	3.3	2.1	1.9	2.1	2.3	na	na	8.9	8.9	
Econ Intelligence Unit	1.9	2.2	1.7	2.1	1.4	1.4	3.1	3.5	na	na	na	na	na	na	na	na	2.5	2.7	9.5	9.2	
Credit Agricole	1.9	2.0	1.2	1.6	1.6	1.5	0.9	2.3	5.1	10.7	2.2	2.3	2.1	1.9	na	na	2.8	2.5	9.0	8.8	
FAZ Institut	1.9	2.0	1.4	1.8	1.3	1.2	1.6	3.0	na	na	2.2	2.5	2.1	1.9	1.6	1.5	na	na	8.9	8.8	
Fortis Bank	1.9	2.3	1.3	2.0	1.6	1.6	1.0	3.7	-3.0	-8.0	2.1	2.4	2.2	1.7	2.1	1.9	2.4	2.5	8.9	8.5	
Global Insight	1.9	2.0	1.3	1.8	1.2	1.3	1.6	3.3	na	na	2.0	2.6	2.1	1.9	1.8	1.7	2.7	2.9	9.0	8.8	
HSBC	1.9	1.5	1.3	1.5	1.8	1.6	1.4	2.0	na	na	na	na	na	na	na	na	na	na	9.0	8.9	
ING Financial Markets	1.9	2.1	1.4	2.0	1.4	1.4	1.2	2.3	16.0	18.0	2.3	2.7	2.2	1.7	1.6	1.6	2.9	3.0	9.0	8.8	
JP Morgan	1.9	2.3	1.1	1.7	1.5	1.6	0.9	3.3	3.8	5.3	2.1	1.7	2.1	1.8	2.3	2.2	na	na	9.0	8.7	
Merrill Lynch	1.9	2.2	1.6	2.0	1.6	1.8	1.6	3.6	na	na	na	na	2.1	1.8	na	na	2.8	3.2	8.8	8.4	
SEB	1.9	2.1	1.2	1.5	1.8	1.6	1.0	3.0	5.0	3.0	2.0	2.6	2.1	1.8	1.8	1.5	2.8	2.7	9.0	8.9	
Societe Generale	1.9	2.0	1.2	1.6	1.8	1.6	1.1	2.6	-1.5	-5.5	na	na	2.1	2.1	na	na	na	na	8.9	8.8	
UBS	1.9	1.7	1.1	1.4	1.5	0.9	1.1	2.6	na	na	2.6	2.4	2.1	1.8	2.0	1.3	na	na	8.9	8.8	
Morgan Stanley	1.9	1.7	1.4	1.7	1.5	1.6	1.0	2.3	0.0	-0.1	2.1	2.0	2.2	1.9	2.2	1.8	na	na	8.9	8.9	
Bank Austria	1.8	1.5	1.4	1.3	1.4	1.4	2.1	2.0	13.0	5.0	2.3	2.2	2.1	1.7	1.5	1.7	2.3	2.3	9.0	8.8	
Bank of America	1.8	2.1	1.2	1.8	1.5	1.8	0.9	3.2	na	na	2.5	2.9	2.1	1.7	na	na	na	na	8.9	8.5	
BNP-Paribas	1.8	2.3	1.2	1.6	1.5	1.5	0.9	3.0	0.9	0.0	2.2	3.7	2.2	1.6	1.9	1.7	2.5	2.9	9.0	8.8	
CDC DGS	1.8	1.5	1.1	1.1	1.5	1.2	0.9	2.7	0.6	8.0	na	na	2.2	2.1	na	na	na	na	9.0	9.0	
Deutsche Bank	1.8	1.8	1.3	1.8	1.4	1.0	1.3	3.0	na	na	2.0	2.5	2.1	1.7	2.0	1.5	2.4	2.5	9.0	8.8	
Dresdner Bank	1.8	2.1	1.4	2.1	1.5	1.6	1.1	3.1	na	na	2.3	3.0	2.1	1.7	1.8	1.8	na	na	8.9	8.7	
European Forecast Network	1.8	1.9	1.3	1.8	1.5	1.4	1.0	3.0	8.5	14.5	2.3	2.4	2.1	1.9	na	na	2.2	2.7	9.0	9.0	
Lehman Brothers	1.8	1.7	1.3	1.8	1.5	1.3	0.7	1.7	5.7	12.6	1.9	1.9	2.2	1.4	2.2	1.5	2.5	2.9	8.9	8.8	
Oxford Econ Forecasting	1.8	2.2	1.3	2.1	1.5	1.2	1.0	2.8	3.9	6.1	2.4	3.0	2.1	1.7	2.3	3.1	na	na	9.0	8.8	
UniCredit Banca Mobiliare	1.8	2.0	1.3	1.9	1.6	1.7	1.2	3.6	na	na	na	na	2.2	2.0	na	na	na	na	9.0	8.8	
WestLB	1.8	2.0	1.3	1.7	1.3	0.7	2.0	4.0	7.0	8.0	1.5	2.3	2.1	1.9	1.7	1.0	2.5	2.5	9.0	8.8	
BBVA	1.7	2.3	1.2	2.0	1.5	1.6	1.1	3.5	1.6	1.6	2.2	2.5	2.2	1.9	2.3	2.3	na	na	8.9	8.7	
Lloyds TSB Financial Mkts	1.7	1.7	1.4	1.8	1.0	1.3	1.2	2.4	20.1	26.2	1.9	2.2	2.1	1.4	1.1	1.1	2.2	2.2	9.0	8.9	
Consensus (Mean)	1.9	2.0	1.3	1.7	1.4	1.4	1.3	2.9	4.5	5.7	2.2	2.5	2.1	1.8	1.9	1.7	2.5	2.7	9.0	8.6	
Last Month's Mean	1.8	2.0	1.3	1.8	1.4	1.4	1.4	3.0	7.3	8.9	2.1	2.5	2.1	1.8	1.7	1.6	2.5	2.7	9.0	8.8	
3 Months Ago	1.7	2.0	1.3	1.9	1.2	1.4	1.6	3.1	18.4	18.6	2.0	2.6	2.1	1.8	1.5	1.5	2.6	2.7	8.9	8.7	
High	2.0	2.3	1.7	2.1	1.6	1.8	3.1	4.0	20.1	26.2	2.7	3.7	2.2	2.1	2.3	3.1	2.9	3.2	9.5	9.2	
Low	1.7	1.5	1.1	1.1	0.7	0.7	0.7	1.3	-5.5	-8.2	1.5	1.4	2.1	1.4	1.1	1.0	2.2	2.2	8.8	8.4	
Standard Deviation	0.1	0.2	0.1	0.2	0.2	0.3	0.5	0.6	6.2	8.6	0.3	0.5	0.0	0.2	0.3	0.5	0.2	0.3	0.1	0.2	
Comparison Forecasts																					
Euro Commission (Apr. '04)	1.7	2.3	1.8	2.3	1.2	1.3	2.4	3.6					1.9	1.6					8.8	8.6	
IMF (Sep. '04)	2.2	2.2	1.5	2.1	1.5	1.5	2.1	3.4					2.1	1.9					9.0	8.7	
OECD (May '04)	1.8	2.4	1.3	2.5	1.2	1.0	2.0	4.1											8.8	8.5	

European Monetary Union

Euro zone - The twelve European countries (listed at the top of this page) are united by a common currency (the euro), monetary policy and adherence to the Maastricht Treaty. Monetary Policy - is set by the European Central Bank's (ECB) governing board, headed currently by Jean Claude Trichet. Nominal GDP - Euro7,255.9bn (2003). Population - 306.5mn (mid-year, 2003). \$/Euro Exchange Rate - 1.131 (average, 2003).

Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 13, 2004

	2004				2005				2006				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Gross Domestic Product	1.3	2.0	2.0	2.1	1.9	1.9	2.0	2.1	2.1	2.0			
Private Consumption	0.9	1.1	1.4	1.8	1.8	1.7	1.8	1.9	2.0	2.0			
Consumer Prices	1.7	2.3	2.3	2.2	2.1	1.7	1.7	1.6	1.6	1.6			

Percentage Change (year-on-year)

Historical Data

* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	3.5	1.6	0.8	0.5
Private Consumption*	2.7	1.9	0.6	1.0
Government Consumption*	2.1	2.5	3.1	1.7
Gross Fixed Capital Formation*	4.9	-0.3	-2.7	-0.6
Change in Inventories, Euro bn	10.8	-22.7	-29.7	-6.2
Industrial Production*	6.3	0.4	-0.5	0.3
Consumer Prices*	2.1	2.4	2.3	2.1
Industrial Producer Prices*	5.3	2.0	-0.1	1.4
Hourly Labour Costs*	3.2	3.6	3.5	3.0
Unemployment Rate, (%)	8.4	8.0	8.3	8.9
Exports - Goods & Services*	12.3	3.4	1.7	0.1
Imports - Goods & Services*	11.0	1.7	0.3	2.1
Current Account, Euro bn	-79.1	-17.2	53.4	24.2
General Govt Budget Balance, Euro bn	12.3	-115	-167	-197
Money Supply, M3, end period*	4.1	8.1	6.9	7.0

Average % Change on Previous Calendar Year				Annual Total				Average % Change on Prev. Year	
Exports of Goods & Services		Imports of Goods & Services		Current Account (Euro bn)		General Govt Budget Balance (Euro bn)		Money Supply, M3, end period	
2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
6.4	5.1	4.4	3.5	na	na	-228	-220	5.3	4.6
6.0	6.5	5.0	6.5	40.0	50.0	-208	-187	5.3	5.0
6.5	5.1	5.0	5.1	45.1	46.9	-203	-203	na	na
7.0	5.9	5.9	5.9	69.0	29.0	-211	-203	na	na
7.3	8.0	6.3	8.5	48.4	37.4	-201	-176	5.5	5.3
4.4	4.9	4.4	5.1	na	na	-206	-203	na	na
6.8	6.6	5.8	6.6	65.0	84.0	-218	-202	na	na
5.2	5.5	5.0	5.6	66.0	59.0	-200	-190	5.2	4.8
7.1	7.0	6.0	7.2	45.0	25.0	-200	-200	5.5	4.5
6.2	5.8	5.5	6.0	55.0	60.0	-208	-197	5.8	5.4
5.7	3.6	5.2	3.9	na	na	na	na	na	na
4.8	4.4	4.7	5.4	40.0	44.0	na	na	5.2	5.0
6.5	6.4	5.3	6.1	58.1	63.9	-211	-209	na	na
5.3	4.9	4.5	5.1	30.0	25.0	-200	-205	5.1	5.5
6.4	4.8	5.2	4.4	45.0	35.0	-210	-190	5.8	5.2
6.6	5.5	5.4	5.1	40.5	36.0	-222	-207	na	na
6.8	4.2	5.3	4.3	na	na	na	na	na	na
6.0	3.5	4.8	3.4	29.3	37.9	na	na	5.3	4.3
na	na	na	na	na	na	na	na	5.5	5.0
na	na	na	na	43.5	23.0	na	na	na	na
6.4	6.6	5.3	5.8	30.0	85.0	-211	-200	4.9	5.9
6.5	4.4	5.4	4.8	42.0	35.0	-211	-220	na	na
6.6	6.2	5.7	6.7	45.0	50.0	-219	-207	5.4	5.1
6.4	5.8	5.5	6.4	38.9	40.0	na	na	na	na
6.0	6.4	5.6	7.0	na	na	na	na	5.5	5.9
6.0	4.6	5.3	5.0	40.7	33.4	-207	-213	na	na
6.2	6.3	5.4	6.3	44.4	52.1	-230	-214	na	na
7.0	6.5	5.9	7.4	na	na	na	na	na	na
6.3	5.5	5.5	5.5	55.0	60.0	-203	-196	4.2	5.0
5.8	6.0	5.1	6.1	21.0	23.0	-210	-200	na	na
5.0	5.7	4.6	6.4	57.5	62.4	-235	-242	4.0	3.6
6.2	5.6	5.3	5.7	45.6	45.7	-211	-204	5.2	5.0
5.8	5.5	5.2	5.7	43.6	43.4	-212	-209	5.2	5.0
4.8	5.4	4.3	5.6	38.3	38.9	-212	-203	5.0	5.2
7.3	8.0	6.3	8.5	69.0	85.0	-200	-176	5.8	5.9
4.4	3.5	4.4	3.4	21.0	23.0	-235	-242	4.0	3.6
0.7	1.0	0.5	1.2	12.1	17.6	10	13	0.5	0.6

Interest Rates Unchanged as ECB Outlook Wavers
 The European Central Bank left interest rates unchanged on October 7, with ECB president Jean-Claude Trichet indicating that the bank's GDP growth outlook has moderated. This marks a change in tone compared with the ECB's earlier expectations with regards to the recovery. However, the current strength in oil prices (see page 27) has reawakened concerns over inflationary pressures. Data releases also pointed to slower economic activity over the third quarter, with September's Purchasing Managers' Index indicating a slowdown in industry. Retail sales fell in August which suggests that domestic demand is not providing much impetus to growth, either. Consequently, our panel believes that rates will remain on hold over the next 30 days.

Euro Zone Interest Rates
 Forecasts are provided by a total of more than 80 panelists for Germany (page 9), France (page 11), Italy (page 15), the Netherlands (page 20) and Spain (page 22). This allows the analysis of forecasts for different yields on individual country 10-year benchmark bonds. Forecasts for 3-month interest rates are all for the EURIBOR rate.

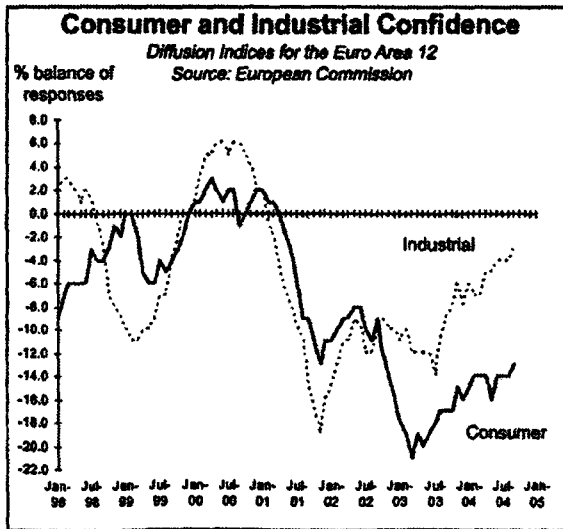
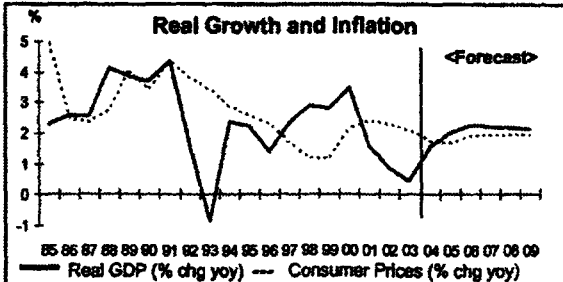
	Actual	Consensus	
	Oct 11 '04	End Jan'05	End Oct'05
Euribor: 3-mth, %	2.1	2.2	2.6
German 10-yr Govt Bond, %	4.1	4.3	4.8

Likelihood of an ECB Interest Rate Change
 Our panel's estimated average probability of a change in the intervention rate within 30 days following the survey date was:

INCREASE	NO CHANGE	DECREASE	
10.3	+ 89.0	+ 0.7	= 100 %
Most likely rate change mentioned:			None

Euro Exchange Rates
 Forecasts are provided by more than 100 panelists and are shown on page 27.

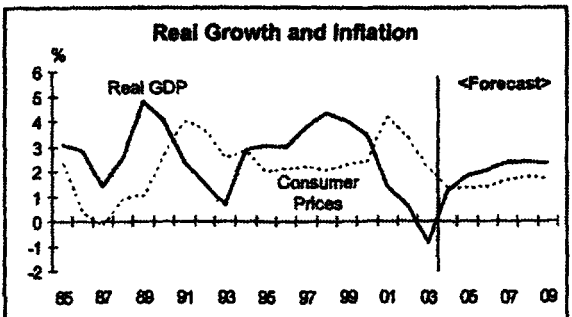
Euro Zone Economic Statistics
 The source of all Historical Data (facing page) is Eurostat, with the exception of the Current Account and the Money Supply, M3, which are from the European Central Bank. The base years and statistics methodologies used by Eurostat may differ from those used by individual euro zone-member countries included in Consensus Forecasts. Eurostat data is often drawn from the national statistical agencies within the euro zone but is adjusted to achieve standard classifications.



	Average % Change on Previous Calendar Year										Annual Total		Rates on Survey Date					
	Gross Domestic Product		Private Consumption		Gross Fixed Investment		Manufacturing Production		Consumer Prices		Hourly Wages (Manufacturing)		Current Account (Euro bn)		3 month Euro Rate (%)		10 Year Dutch Govt Bond Yield (%)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Econ Intelligence Unit	1.4	2.0	0.8	1.8	2.5	2.8	0.8	2.2	1.4	1.5	na	na	na	na	na	na	na	na
Fortis Bank	1.4	1.9	0.5	1.1	1.6	2.2	1.0	2.5	1.2	1.0	1.7	1.2	14.6	16.7	2.2	2.6	4.2	4.8
Rabobank Nederland	1.4	1.9	0.0	1.2	0.5	3.2	na	na	1.2	1.2	1.5	0.8	na	na	2.5	3.1	4.4	4.6
Morgan Stanley	1.3	1.8	0.5	1.2	2.2	1.9	na	na	1.2	0.8	na	na	15.9	17.9	2.5	3.0	4.4	4.7
ABN AMRO	1.3	2.0	0.3	0.9	1.8	1.8	1.3	3.0	1.2	1.3	1.5	1.5	13.5	15.5	2.3	3.0	4.4	4.7
Deutsche Bank	1.3	1.5	0.4	1.1	2.0	2.4	0.3	1.5	1.2	0.8	1.7	0.8	15.5	17.5	2.2	2.4	4.5	4.9
Economy.com	1.3	3.3	0.6	3.1	3.0	4.1	1.3	3.3	1.2	1.5	2.1	3.5	13.8	14.8	na	na	na	na
Effectenbank Stroeve	1.2	1.6	0.5	1.2	1.8	1.4	0.4	2.0	1.3	1.8	1.6	1.7	16.0	16.5	2.3	2.6	4.4	4.9
Goldman Sachs	1.2	2.0	0.2	1.7	0.5	1.4	0.6	2.4	1.4	1.6	na	na	na	na	na	na	na	na
ING	1.2	1.6	0.3	0.5	1.6	1.0	0.6	2.2	1.3	1.2	1.4	1.1	16.3	17.9	2.1	2.1	4.4	4.6
Kampan & Co.	1.2	2.0	1.0	2.2	1.0	2.6	1.0	3.0	1.8	2.0	1.0	1.8	13.0	13.0	2.1	2.4	4.3	4.5
NIB Capital	1.2	2.0	0.3	1.0	0.5	2.5	1.0	3.0	1.2	0.8	1.6	1.2	na	na	2.1	2.8	4.5	4.7
Citigroup	1.0	1.4	0.2	1.2	1.0	3.4	0.8	2.5	1.2	1.1	1.5	0.7	14.0	13.8	2.2	2.6	4.3	4.7
HSBC	1.0	1.1	0.0	0.4	0.3	0.7	na	na	1.5	1.2	na	na	16.5	14.8	2.1	1.8	4.2	4.5
Consensus (Mean)	1.2	1.8	0.4	1.3	1.4	2.2	0.8	2.5	1.3	1.3	1.6	1.4	14.9	15.8	2.2	2.6	4.4	4.7
Last Month's Mean	1.2	2.0	0.2	1.5	1.4	2.2	1.0	2.6	1.3	1.2	1.6	1.4	15.1	16.5				
3 Months Ago	1.3	2.0	0.3	1.6	2.7	2.6	1.2	2.7	1.4	1.3	1.6	1.5	14.5	15.7				
High	1.4	3.3	1.0	3.1	3.0	4.1	1.3	3.3	1.8	2.0	2.1	3.5	16.5	17.9	2.5	3.1	4.5	4.9
Low	1.0	1.1	0.0	0.4	0.3	0.7	0.3	1.5	1.2	0.8	1.0	0.8	13.0	13.0	2.1	1.8	4.2	4.5
Standard Deviation	0.1	0.5	0.3	0.7	0.8	1.0	0.3	0.5	0.2	0.4	0.3	0.8	1.3	1.7	0.2	0.4	0.1	0.1
Comparison Forecasts																		
CPB (Sep. '04)	1.3	1.4	0.2	-0.1	1.6	1.9			1.3	1.2			17.4	20.7				
Eur Commission (Apr. '04)	1.0	1.6	0.4	1.1	-0.6	2.1												
BMF (Sep. '04)	1.1	1.8																
OECD (May '04)	0.9	2.1	0.4	1.7	0.0	2.8												

◆ Revised second quarter national accounts data reveal that private consumption rose at a somewhat quicker pace this year than was previously thought: by 0.6% q-o-q in the first quarter and 0.1% during the April-June period, as opposed to 0.3% and 0.0%, respectively.

◆ In an effort to boost the competitiveness of the economy, the government's recently unveiled 2005 budget included plans to cut corporation tax, reduce incentives for employees to retire early and freeze civil service wages. The planned measures led to demonstrations against the proposed cutbacks.



Historical Data				
* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	3.5	1.4	0.6	-0.9
Private Consumption*	3.5	1.4	1.3	-0.9
Gross Fixed Investment*	1.4	0.2	-3.6	-3.1
Manufacturing Production*	4.4	-0.7	-0.8	-2.8
Consumer Prices*	2.4	4.2	3.3	2.1
Hourly Wages (manufacturing)*	3.6	3.9	3.7	2.7
Current Account, transactions basis, Euro bn	7.8	8.3	11.2	13.0
3 mth Euro, % (end yr)	4.8	3.3	2.9	2.1
10 Yr Dutch Govt Bond Yield, % (end yr)	5.0	5.1	4.2	4.3

Nominal GDP - Euro454.3bn (2003). Popn - 16.2mn (mid-year, 2003). \$/Euro Exch. Rate - 1.131 (average, 2003).

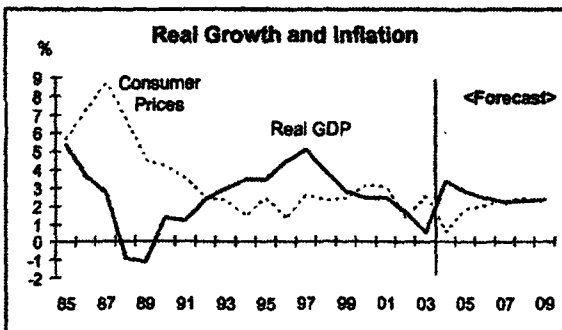
Quarterly Consensus Forecasts										
Historical Data and Forecasts (bold italics) From Survey of September 13, 2004										
	2004				2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	0.8	1.1	1.4	1.5	1.4	2.0	2.6	2.1	2.2	2.1
Consumer Prices	1.2	1.5	1.1	1.4	1.5	1.1	1.0	1.0	1.0	1.0

Percentage Change (year-on-year)

	Average % Change on Previous Calendar Year						Annual Total		Rates on Survey Date									
	Gross Domestic Product (Mainland)		Private Consumption		Gross Fixed Investment		Manufacturing Production		Consumer Prices		Wages & Salaries		Current Account (Nkr bn)		3 month Interbank Rate (%)		10 Year Govt Bond Yield (%)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Economic Forecasters																		
Statistics Norway	3.9	2.9	5.0	4.7	8.4	4.7	1.7	2.0	0.4	1.1	3.8	3.7	249	253	2.2	2.5	na	na
DnB NOR	3.7	2.8	4.9	4.0	4.1	3.9	na	na	0.5	1.8	4.1	4.4	231	196	2.0	3.0	4.5	5.0
First Securities	3.7	3.3	4.3	3.5	8.6	7.9	1.3	3.6	0.5	1.8	3.8	4.0	228	155	2.3	4.0	5.0	5.8
HSBC	3.5	2.7	4.1	3.5	5.7	5.3	na	na	0.6	1.9	na	na	na	na	na	na	na	na
JP Morgan	3.5	3.1	4.0	2.7	6.2	6.5	na	na	0.5	1.8	na	na	215	234	2.1	2.8	4.6	5.4
Economy.com	3.4	3.1	5.0	3.3	3.8	3.0	1.6	2.2	0.6	1.9	3.8	4.0	236	231	na	na	na	na
Deutsche Bank	3.3	2.8	4.1	3.6	5.7	4.1	2.0	2.5	0.4	2.0	3.8	4.8	210	206	2.1	2.8	4.7	5.5
Danske Bank	3.2	2.9	4.7	3.9	4.2	3.7	na	na	0.5	1.9	3.7	4.0	235	232	2.0	2.8	4.7	5.4
Nordea Markets	3.1	3.0	4.5	4.0	4.9	2.9	2.5	1.0	0.6	1.6	3.7	4.3	266	274	2.0	2.8	4.5	5.2
Alfred Berg	3.1	2.2	4.2	3.2	5.3	5.3	na	na	0.4	2.4	3.5	3.8	238	258	2.2	3.0	4.5	5.0
Norwegian Fin Serv Assn	3.1	3.0	5.2	4.7	5.2	3.4	1.5	3.3	0.6	2.0	3.9	4.2	246	203	1.9	2.7	4.5	5.1
Handelsbanken - Oslo	2.9	1.9	3.9	3.1	6.0	3.9	na	na	0.4	1.4	3.8	3.5	na	na	2.0	2.8	4.6	4.7
Consensus (Mean)	3.4	2.8	4.5	3.7	5.7	4.6	1.8	2.4	0.5	1.8	3.8	4.1	235	224	2.1	2.9	4.6	5.2
Last Month's Mean	3.2	2.8	4.6	3.7	5.0	3.8	1.7	2.5	0.5	1.8	3.8	4.0	229	229				
3 Months Ago	3.2	2.8	4.9	3.7	3.2	3.0	2.0	2.4	0.5	1.9	3.8	4.1	218	217				
High	3.9	3.3	5.2	4.7	8.6	7.9	2.5	3.6	0.6	2.4	4.1	4.8	266	274	2.3	4.0	5.0	5.8
Low	2.9	1.9	3.9	2.7	3.8	2.9	1.3	1.0	0.4	1.1	3.5	3.5	210	155	1.9	2.5	4.5	4.7
Standard Deviation	0.3	0.4	0.5	0.6	1.5	1.5	0.4	0.9	0.1	0.3	0.2	0.4	16	35	0.1	0.4	0.2	0.3
Comparison Forecasts																		
Bank of Norway (Jul. '04)	3.5	3.0	5.3	4.0					0.5	1.8	3.8	4.5						
OECD (May '04)	3.7	3.1	4.5	3.2	1.7	2.7												

◆ Consumer prices rose by 0.6% m-o-m in September, with the y-o-y inflation rate edging up to 1.1% from 1.0% in August. A sharp increase in clothes prices was largely behind the acceleration, which left the underlying inflation rate (which excludes tax and energy price movements) at 0.5% y-o-y, up from 0.1% in August, but still well below the Norges Bank's medium-term target rate of 2%.

◆ Largely representing strong income growth from oil exports, the current account recorded a surplus of Nkr22.8bn in July, taking the cumulative total so far this year to Nkr128.2, compared to Nkr111.2bn this time last year.



Historical Data				
* % change on previous year	2000	2001	2002	2003
GDP (Mainland)*	2.4	2.4	1.6	0.5
Private Consumption*	3.8	1.7	3.6	3.7
Gross Fixed Investment*	-3.6	-0.6	-3.5	-3.7
Manufacturing Production*	-3.0	-1.1	-0.9	-4.2
Consumer Prices*	3.1	3.0	1.3	2.5
Wages & Salaries per Full-Time Employee (Total)*	4.5	5.1	5.3	3.9
Current Account, Nkr bn	229	235	196	201
3 mth Interbank Rate, % (end yr)	7.7	7.0	7.1	2.5
10 Yr Govt Bond Yield, % (end yr)	6.0	6.3	5.8	4.5

Nominal GDP (total) - Nkr 1,564bn (2003). Population - 4.5mn (mid-yr, 2003). Nkr/\$ Exchange Rate - 7.080 (average, 2003).

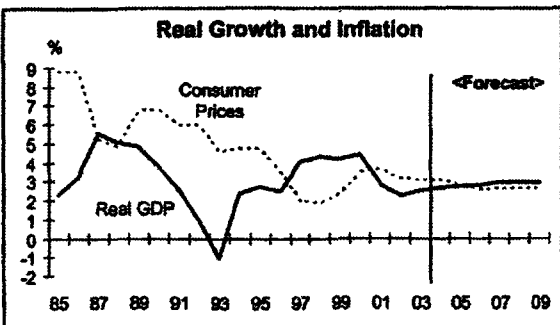
Quarterly Consensus Forecasts										
Historical Data and Forecasts (bold italics) From Survey of September 13, 2004										
	2004				2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product (mainland)	3.4	3.7	3.0	3.0	2.9	2.7	2.7	2.8	2.4	2.3
Consumer Prices	-1.4	0.9	1.2	1.3	1.7	1.6	1.7	1.8	2.0	2.1

Percentage Change (year-on-year).

	Average % Change on Previous Calendar Year												Annual Total		Rates on Survey Date			
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Industrial Production		Consumer Prices		Salary Cost per Hour		Current Account (Euro bn)		3 month Euro Rate (%)		10 Year Spanish Govt Bond Yield (%)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
ING Financial Markets	2.9	2.9	3.3	3.1	3.5	3.8	2.8	3.8	2.8	2.5	4.1	4.2	-22.5	-24.5	2.1	2.1	4.4	4.9
Econ Intelligence Unit	2.8	3.0	3.0	3.2	4.0	4.0	3.0	3.0	2.7	2.5	na	na	na	na	na	na	na	na
UBS	2.8	2.6	3.3	3.2	3.7	3.7	2.7	2.3	2.8	2.6	na	na	na	na	2.1	2.1	4.4	4.6
AFI	2.7	2.9	3.2	2.9	3.5	4.1	3.0	2.6	3.1	3.1	na	na	-30.0	-36.0	2.2	3.1	4.2	4.4
Banesto	2.7	3.1	3.3	3.0	3.4	4.0	2.6	3.0	3.0	3.0	na	na	na	na	2.2	2.9	4.6	5.2
Caja Madrid	2.7	2.7	3.2	2.8	3.3	3.7	2.2	2.8	3.1	2.9	3.9	3.9	-25.3	-25.2	2.7	3.3	4.5	5.1
FAZ Institut	2.7	2.8	3.0	2.8	3.3	3.0	2.3	2.5	3.0	2.7	na	na	-26.4	-27.2	na	na	na	na
Inet Estud Economicos	2.7	na	3.1	na	3.3	na	3.3	na	3.0	na	4.0	na	-21.4	na	2.2	2.5	4.3	4.5
Instituto de Credito Oficial	2.7	3.0	3.3	3.2	3.6	4.5	2.6	3.5	3.0	2.7	3.9	3.8	-26.1	-28.7	2.2	3.0	4.3	4.7
Inet L R Klein (Gauss)	2.7	2.8	3.3	3.4	3.7	4.1	2.8	3.0	3.0	2.8	3.8	3.6	-26.3	-31.3	2.3	2.7	4.5	4.9
CEPREDE	2.6	3.1	3.2	3.4	3.6	4.7	2.6	3.0	3.2	3.2	4.2	4.0	-23.5	-24.2	2.4	3.2	4.8	5.2
FUNCAS	2.6	2.8	3.2	2.8	4.2	4.5	2.2	4.3	3.0	2.8	3.9	4.2	-29.8	-34.7	2.3	2.7	4.3	4.7
Goldman Sachs	2.6	2.4	3.2	2.7	3.2	3.5	2.8	3.2	3.1	2.8	3.7	4.0	-32.7	-35.4	2.3	2.7	4.5	4.4
Grupo Santander	2.6	2.6	3.2	2.7	3.3	3.8	na	na	3.0	2.9	4.0	4.0	-21.0	-21.0	2.3	3.0	4.4	4.8
La Caixa	2.6	2.7	3.2	2.9	3.7	3.9	2.9	3.3	3.0	2.8	4.3	3.9	-26.0	-26.5	2.4	3.4	4.7	5.3
Morgan Stanley	2.5	2.4	3.0	2.1	2.1	3.4	2.1	2.5	3.1	3.0	na	na	na	na	2.2	3.0	4.0	4.6
BBVA	2.5	2.6	3.2	2.8	3.5	3.7	2.0	1.6	3.1	3.2	3.8	3.6	-19.8	-18.8	2.2	3.0	4.7	5.0
HSBC	2.5	2.0	3.3	3.2	3.4	3.3	2.4	1.2	2.9	2.4	na	na	-22.8	-24.0	2.1	1.8	4.2	4.5
IFL-Univers Carlos III	2.5	2.9	3.2	3.3	3.6	3.8	2.5	2.7	3.0	2.8	3.8	3.9	-25.0	-28.9	2.3	2.5	4.1	4.0
Consensus (Mean)	2.7	2.7	3.2	3.0	3.5	3.9	2.6	2.8	3.0	2.8	4.0	3.9	-25.4	-27.7	2.3	2.8	4.4	4.7
Last Month's Mean	2.7	2.8	3.2	3.0	3.6	4.0	2.7	2.9	3.0	2.8	4.0	3.9	-24.8	-26.8				
3 Months Ago	2.8	3.0	3.2	3.1	3.7	4.0	2.5	3.0	2.9	2.6	3.9	3.8	-23.5	-24.9				
High	2.9	3.1	3.3	3.4	4.2	4.7	3.3	4.3	3.2	3.2	4.3	4.2	-19.8	-18.8	2.7	3.4	4.8	5.3
Low	2.5	2.0	3.0	2.1	2.1	3.0	2.0	1.2	2.7	2.4	3.7	3.5	-32.7	-36.0	2.1	1.8	4.0	4.0
Standard Deviation	0.1	0.3	0.1	0.3	0.4	0.4	0.4	0.7	0.1	0.2	0.2	0.2	3.7	5.3	0.1	0.4	0.2	0.3
Comparison Forecasts																		
Eur Commission (Apr. '04)	2.8	3.3	3.0	3.3	3.4	4.7												
IMF (Sep. '04)	2.6	2.9	3.2	2.9	3.2	3.3												
OECD (May '04)	2.9	3.3	3.3	3.6	4.0	5.0												

◆ The government, as part of its 2005 budget, announced an increase in funding for low-cost housing. The boom in the property market, as well as an associated period of strong growth in construction, have been important drivers of GDP growth in recent years. However, some, including the Bank of Spain, have warned that the pace of house price rises is becoming unsustainable.

◆ The current account deficit widened in the second quarter, reaching €9.5bn compared to €6.3bn in the first. Robust import demand and a disappointing start to the tourist season are likely factors behind the shortfall.



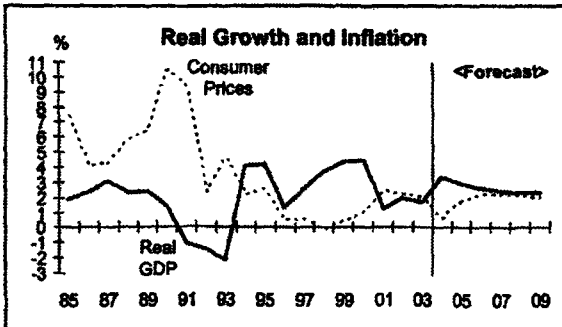
Historical Data				
* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	4.4	2.8	2.2	2.5
Household Consumption*	4.1	2.8	2.8	2.9
Gross Fixed Investment*	5.7	3.0	1.7	3.2
Industrial Production*	4.0	-1.2	0.1	1.6
Consumer Prices*	3.4	3.6	3.1	3.0
Salary Cost per Hour*	2.4	3.8	4.1	4.3
Current Account, Euro bn	-21.0	-18.3	-16.9	-20.8
3 mth Euro, % (end yr)	4.8	3.3	2.9	2.1
10 Yr Spanish Govt Bond Yield, % (end yr)	5.2	5.2	4.2	4.3
Nominal GDP - Euro744.8bn (2003). Popn - 41.1mn (mid-year, 2003). \$/Euro Exch. Rate - 1.131 (av., 2003).				

Quarterly Consensus Forecasts										
Historical Data and Forecasts (bold italics) From Survey of September 13, 2004										
	2004				2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	2.7	2.6	2.6	2.6	2.7	2.8	2.9	3.0	3.2	3.2
Consumer Prices	2.2	3.2	3.4	3.5	3.4	2.9	2.7	2.7	2.5	2.5
Percentage Change (year-on-year)										

	Average % Change on Previous Calendar Year										Annual Total		Rates on Survey Date					
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Mining & Manufacturing Production		Consumer Prices		Hourly Earnings (Mining & Manuf.)		Current Account (Skr bn)		3 month Deposit Rate (%)		10 Year Govt Bond Yield (%)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Morgan Stanley	3.7	2.8	2.4	2.0	3.2	4.9	na	na	0.5	1.8	na	na	176	168	na	na	na	na
Svenska Handelsbanken	3.5	3.4	2.5	2.8	3.7	8.7	6.1	5.6	0.7	1.6	3.0	3.4	148	138	2.3	2.8	4.6	4.6
National Institute - NIER	3.5	3.0	2.4	3.0	2.6	6.3	9.1	6.8	0.5	1.6	3.2	3.2	170	174	2.1	2.6	4.6	4.9
Skandianbanken	3.5	2.6	2.3	2.0	3.6	5.0	7.0	5.2	0.5	1.4	3.3	3.3	180	170	2.3	2.8	4.6	4.8
Hagströmer & Övberg	3.4	2.9	2.6	2.8	4.0	5.6	7.5	5.5	0.5	1.7	3.2	3.2	na	na	2.3	2.7	4.8	5.3
Nordea	3.4	3.2	2.5	3.1	3.6	6.1	na	na	0.6	1.4	na	na	166	169	na	na	4.8	5.1
SBAB	3.4	3.0	2.5	2.5	2.0	4.9	4.4	5.8	0.6	1.6	2.9	3.3	160	165	2.4	3.2	4.6	5.4
SE Banken	3.4	3.2	2.6	3.4	3.5	7.5	7.0	6.5	0.6	1.7	3.0	3.0	166	172	2.4	3.6	4.7	5.1
ING Financial Markets	3.3	3.3	2.6	3.2	3.0	5.3	5.5	5.2	0.6	1.9	3.5	3.7	152	155	2.5	3.6	4.8	4.9
JP Morgan	3.3	3.0	2.3	2.2	2.3	3.0	na	na	0.6	1.4	na	na	155	161	2.6	3.3	4.7	5.1
Örman	3.2	2.9	2.6	2.6	3.0	6.0	6.0	5.0	0.6	2.2	3.4	3.6	180	160	2.4	4.0	4.7	5.3
Swedbank	3.2	2.6	2.4	2.1	2.5	5.0	6.3	5.0	0.6	2.2	3.0	3.2	168	153	2.6	3.4	4.6	5.1
UBS	3.2	2.9	2.3	3.1	2.9	5.0	4.1	3.0	0.5	1.5	2.9	3.5	200	192	2.8	3.5	5.1	5.1
Econ Intelligence Unit	3.2	2.7	2.6	3.0	3.2	5.2	5.5	5.2	0.7	1.6	na	na	na	na	na	na	na	na
Confed of Swed Enterprise	3.0	2.5	2.4	2.3	4.0	4.5	7.0	5.7	0.8	2.1	na	na	na	na	2.1	2.6	4.5	4.8
Consensus (Mean)	3.4	2.9	2.5	2.7	3.1	5.5	6.3	6.3	0.6	1.7	3.1	3.3	167	165	2.4	3.2	4.7	5.0
Last Month's Mean	3.3	2.9	2.5	2.6	3.0	5.6	6.1	5.3	0.6	1.7	3.2	3.4	165	160				
3 Months Ago	2.9	2.7	2.5	2.5	2.4	5.0	5.0	5.0	0.7	1.8	3.3	3.5	155	156				
High	3.7	3.4	2.6	3.4	4.0	8.7	9.1	6.8	0.8	2.2	3.5	3.7	200	192	2.8	4.0	5.1	5.4
Low	3.0	2.5	2.3	2.0	2.0	3.0	4.1	3.0	0.5	1.4	2.9	3.0	148	136	2.1	2.6	4.5	4.6
Standard Deviation	0.2	0.3	0.1	0.5	0.6	1.3	1.4	0.9	0.1	0.3	0.2	0.2	14	14	0.2	0.5	0.2	0.2
Comparison Forecasts																		
Riksbank (May '04)	2.9	2.8	2.6	2.4	3.2	7.7			0.4	1.2								
Eur Commission (Apr. '04)	2.3	2.6	2.3	2.5	1.5	5.6												
BMF (Sep. '04)	3.0	2.5																
OECD (May '04)	2.5	2.8	2.5	2.5	1.1	6.0												

◆ The government's 2005 budget plan – which includes a series of tax cuts – was widely seen as stimulative and likely to support the current upswing over the coming year. However, some believe that it may also increase inflationary pressures, possibly leading to the Riksbank raising interest rates sooner than might otherwise have been the case.

◆ Retail sales surged by 1.9% m-o-m in August, continuing the upward trend of recent months and indicating that household consumption growth was fairly strong during the third quarter, after rising by 0.5% q-o-q in the second.



Historical Data				
* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	4.4	1.2	2.0	1.7
Household Consumption*	5.0	0.4	1.4	1.9
Gross Fixed Investment*	5.6	-1.0	-3.0	-2.0
Min. & Manufacturing Prodn*	6.6	-0.5	0.3	2.1
Consumer Prices*	1.0	2.4	2.2	1.9
Average Hourly Earnings (Mining & Manufacturing)*	3.3	2.9	3.4	2.9
Current Account, Skr bn	90.8	100	126	157
3 mth Deposit Rate, % (end yr)	4.1	3.8	3.8	2.8
10 Yr Govt Bond Yield, % (end yr)	4.8	5.3	4.6	4.8

Nominal GDP - Skr 2,438.9bn (2003). Population - 8.9mn (mid-year, 2003). Skr/\$ Exchange Rate - 8.086 (average, 2003).

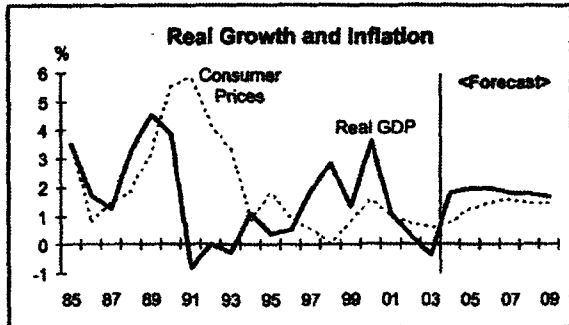
Quarterly Consensus Forecasts										
Historical Data and Forecasts (bold italics) From Survey of September 13, 2004										
	2004			2005			2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	2.6	3.3	3.5	3.2	3.1	2.8	3.0	3.0	3.0	3.0
Consumer Prices	0.1	0.4	0.7	1.0	1.2	1.5	1.7	1.9	2.1	2.2

Percentage Change (year-on-year)

	Average % Change on Previous Calendar Year										Annual Total		Rates on Survey Date					
	Gross Domestic Product		Private Consumption		Gross Fixed Investment		Industrial Production		Consumer Prices		Merchandise Exports (SwFr bn)		Current Account (SwFr bn)		9.7%		2.5%	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	End Jan'05	End Oct'05	End Jan'05	End Oct'05
Economic Forecasters																		
Zürcher Kantonalbank	2.1	2.6	1.6	2.1	3.6	3.6	1.9	2.2	0.7	1.3	140	155	na	na	1.0	1.8	2.9	3.5
Goldman Sachs	1.9	2.0	2.1	1.5	4.5	1.7	4.5	4.9	0.8	1.5	na	na	na	na	1.0	2.0	3.2	4.0
ING Financial Markets	1.9	2.3	1.9	2.0	2.5	2.5	3.0	3.2	0.7	1.3	138	147	47.1	47.0	1.0	1.8	2.9	3.3
UBS	1.9	2.1	1.7	2.0	4.6	3.9	na	na	0.8	1.0	139	146	na	na	1.0	1.7	3.0	3.4
Bank Julius Beer	1.8	1.5	1.8	1.4	3.0	2.7	3.5	2.3	0.8	1.4	140	148	52.3	50.6	1.0	1.8	2.8	3.0
Econ Intelligence Unit	1.8	2.0	1.7	1.5	4.5	3.2	4.7	5.1	0.9	1.1	na	na	na	na	na	na	na	na
BAK Basel	1.8	1.7	1.8	1.7	2.6	3.6	na	na	0.7	1.3	142	149	52.8	49.8	0.8	1.4	2.9	3.2
Bank Vontobel	1.8	1.8	1.7	1.5	3.9	2.7	2.8	2.7	0.7	1.0	na	na	na	na	1.0	1.2	2.7	2.8
Credit Suisse	1.8	1.6	1.6	1.4	3.2	2.6	na	na	0.7	1.0	140	144	49.0	46.0	1.0	1.5	2.7	2.6
JP Morgan	1.8	2.0	1.9	1.9	5.2	3.9	5.1	2.9	0.8	0.9	160	171	57.0	57.0	1.0	1.7	3.0	3.4
Pictet & Cie	1.8	2.4	2.0	2.0	4.5	3.8	na	na	0.7	1.3	na	na	56.0	50.0	1.0	2.0	3.0	4.0
Swiss Life	1.7	1.6	1.8	1.8	2.0	2.1	2.8	3.0	0.8	1.4	138	142	na	na	0.9	1.3	2.8	2.5
KOF/ETH	1.8	1.8	1.4	1.4	2.1	3.3	na	na	0.8	1.3	143	151	57.8	57.9	0.8	1.2	3.2	3.3
Institut Crea	1.5	1.9	0.8	1.9	3.3	5.6	na	na	0.4	1.0	144	151	59.0	54.0	1.0	1.3	2.8	3.0
Consensus (Mean)	1.8	1.9	1.7	1.7	3.5	3.2	3.5	3.3	0.7	1.2	142	150	53.9	51.8	1.0	1.6	2.9	3.2
Last Month's Mean	1.7	1.9	1.7	1.7	2.7	2.8	3.4	3.1	0.7	1.2	141	149	50.1	49.4				
3 Months Ago	1.8	1.9	1.6	1.8	2.3	3.1	3.1	2.7	0.7	1.2	142	150	49.0	47.8				
High	2.1	2.5	2.1	2.1	5.2	5.5	5.1	5.1	0.9	1.5	160	171	59.0	57.9	1.0	2.0	3.2	4.0
Low	1.5	1.5	0.8	1.4	2.0	1.7	1.9	2.2	0.4	0.9	138	142	47.1	47.0	0.8	1.2	2.6	2.5
Standard Deviation	0.1	0.3	0.3	0.3	1.0	0.9	1.1	1.1	0.1	0.2	7	8	4.3	4.1	0.1	0.3	0.2	0.5
Comparison Forecasts																		
IMF (Sep. '04)	1.8	2.2																
OECD (May '04)	1.8	2.3	1.6	1.9	3.4	3.7												

◆ The Swiss National Bank (SNB) raised its target range for the three-month Libor rate by 25 basis points on September 16 to 0.25%-1.25%. The central bank expressed confidence in the current recovery and stated that, despite rates being increased for the second time in three months, "[monetary policy] will remain expansionary and support the upswing."

◆ The SNB forecasts inflation to average 0.7% and 1.0% in 2004 and 2005, respectively, at current interest rates. Only during the fourth quarter of 2006 does it expect inflation to rise above the bank's 2% upper limit.



Historical Data				
* % change on previous year	2000	2001	2002	2003
Gross Domestic Product*	3.6	1.0	0.3	-0.3
Private Consumption*	2.3	2.0	0.3	0.5
Gross Fixed Investment*	4.3	-2.9	0.1	-0.3
Industrial Production*	8.4	-0.7	-5.1	0.0
Consumer Prices*	1.6	1.0	0.7	0.8
Merch Exports, SwFr bn	127	132	130	131
Current Account, SwFr bn	51.7	33.8	36.2	57.0
3 mth Euro-Franc Rate, % (end yr)	3.3	1.8	0.6	0.2
10 Yr Govt Bond Yield, % (end yr)	3.5	3.5	2.2	2.6

Nominal GDP - SwFr 433.3bn (2003). Population - 7.2mn (mid-year, 2003). SwFr/\$ Exchange Rate - 1.347 (average, 2003).

Quarterly Consensus Forecasts										
Historical Data and Forecasts (bold italics) From Survey of September 13, 2004										
	2004				2005				2006	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	1.6	2.0	1.9	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Consumer Prices	0.1	0.9	1.0	1.1	1.4	1.2	1.4	1.3	1.4	1.5

Percentage Change (year-on-year).

Forecasts for the countries in Western Europe, the Middle East and Africa shown on the next two pages were provided by the following leading economic forecasters:

Bank Austria Creditanstalt

Dun & Bradstreet

FAZ Institute

Handelsbanken Markets

Bank Leumi

Economist Intelligence Unit

Fiat SpA

Lehman Brothers

Danske Bank

Economy.com

Forecaster ECOSA

Oxford - LBS

e = consensus estimate based on latest survey

AUSTRIA	Population - 8.1mn (2003, mid-year)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
	Nominal GDP - US\$253.4bn (2003)						
	Gross Domestic Product (% change on previous year)	3.4	0.8	1.4	0.7	1.8	2.4
	Industrial Production (% change on previous year)	8.0	2.1	0.7	4.3	3.2	3.6
	Consumer Prices (% change on previous year)	2.3	2.7	1.8	1.3	1.8	1.6
	Current Account (US Dollar bn)	-4.9	-3.7	0.3	-2.3	-1.9	-2.6

BELGIUM	Population - 10.3mn (2003, mid-year)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
	Nominal GDP - US\$302.3bn (2003)						
	Gross Domestic Product (% change on previous year)	3.7	0.7	0.7	1.1	2.4	2.5
	Industrial Production (% change on previous year)	4.9	-0.2	1.2	0.8	2.2	2.6
	Consumer Prices (% change on previous year)	2.5	2.5	1.6	1.6	1.8	1.8
	Current Account (US Dollar bn)	9.0	8.7	12.8	9.4	11.6	11.0

DENMARK	Population - 5.4mn (2003, mid-year)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
	Nominal GDP - US\$212.3bn (2003)						
	Gross Domestic Product (% change on previous year)	2.8	1.6	1.0	0.5	2.2	2.4
	Manufacturing Production (% change on previous year)	5.4	2.0	1.0	-0.4	1.6	2.6
	Consumer Prices (% change on previous year)	2.9	2.4	2.3	2.1	1.3	1.8
	Current Account (US Dollar bn)	2.3	4.8	3.5	6.1	6.6	7.0

EGYPT	Population - 71.9mn (2003, mid-year)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
	Nominal GDP - US\$67.4bn (2003) ¹						
	Gross Domestic Product (% change on previous year) ¹	5.4	3.5	3.2	3.2	3.7	3.9
	Consumer Prices (% change on previous year)	2.7	2.3	2.7	4.2	7.4	5.3
	Current Account (US Dollar bn)	-1.0	-0.4	0.6	3.7	3.1	3.2

¹ year(s) ending June 30

FINLAND	Population - 5.2mn (2003, mid-year)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
	Nominal GDP - US\$161.3bn (2003)						
	Gross Domestic Product (% change on previous year)	5.4	1.0	2.3	2.1	2.8	3.0
	Industrial Production (% change on previous year)	11.8	0.1	2.1	0.8	2.8	4.8
	Consumer Prices (% change on previous year)	3.0	2.6	1.8	0.9	0.4	1.5
	Current Account (US Dollar bn)	9.1	8.7	10.0	9.2	10.7	11.6

GREECE	Population - 11.0mn (2003, mid-year)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
	Nominal GDP - US\$172.5bn (2003)						
	Gross Domestic Product (% change on previous year)	4.5	4.3	3.6	4.5	4.0	2.8
	Industrial Production (% change on previous year)	0.5	1.4	0.4	1.3	3.4	2.3
	Consumer Prices (% change on previous year)	3.2	3.4	3.6	3.5	3.1	2.9
	Current Account (US Dollar bn)	-9.8	-11.4	-10.1	-11.2	-9.0	-11.2

IRELAND	Population - 4.0mn (2003, mid-year) Nominal GDP - US\$152.4bn (2003)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
Gross Domestic Product (% change on previous year)		9.9	6.0	6.1	3.7	4.4	4.8
Industrial Production (% change on previous year)		15.4	10.2	7.8	6.3	5.6	7.2
Consumer Prices (% change on previous year)		5.8	4.9	4.7	3.5	2.2	2.2
Current Account (US Dollar bn)		-0.4	-0.7	-1.5	-2.1	-2.1	-0.9

ISRAEL	Population - 6.4mn (2003, mid-year) Nominal GDP - US\$110.2bn (2003)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
Gross Domestic Product (% change on previous year)		8.0	-0.9	-0.7	1.3	3.4	3.7
Industrial Production (% change on previous year)		10.0	-4.4	-2.3	-0.4	5.3	4.8
Consumer Prices (% change on previous year)		1.1	1.1	5.7	0.7	0.1	2.4
Current Account (US Dollar bn)		-3.0	-1.8	-1.3	0.7	0.1	-0.1

NIGERIA	Popn - 124.0mn (2003, mid-year) Nominal GDP - US\$48.4bn (2003)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
Gross Domestic Product (% change on previous year)		5.4	3.1	1.5	10.7	5.7	5.0
Consumer Prices (% change on previous year)		6.9	18.0	13.7	14.4	15.8	13.6
Current Account (US Dollar bn)		0.7	-1.9	-3.7	0.3 ^e	5.7	0.1

PORTUGAL	Population - 10.1mn (2003, mid-year) Nominal GDP - US\$147.5bn (2003)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
Gross Domestic Product (% change on previous year)		3.4	1.6	0.4	-1.2	1.2	2.2
Industrial Production (% change on previous year)		0.5	3.1	-0.5	-0.1	-0.5	3.8
Consumer Prices (% change on previous year)		2.8	4.3	3.6	3.3	2.4	2.2
Current Account (US Dollar bn)		-11.1	-10.4	-8.2	-7.5	-9.8	-9.1

SAUDI ARABIA	Popn - 24.2mn (2003, mid-year) Nominal GDP - US\$214.6bn (2003)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
Gross Domestic Product (% change on previous year)		4.9	0.5	1.7	7.2	4.2	1.8
Consumer Prices (% change on previous year)		-1.1	-1.1	0.2	0.6	0.8	1.0
Current Account (US Dollar bn)		14.3	9.4	11.9	29.7	43.7	32.9

SOUTH AFRICA	Popn - 45.0mn (2003, mid-year) Nominal GDP - US\$159.8bn (2003)	Historical Data				Consensus Forecasts	
		2000	2001	2002	2003	2004	2005
Gross Domestic Product (% change on previous year)		3.5	2.7	3.6	1.9	3.0	3.6
Manufacturing Production (% change on previous year)		3.6	2.8	5.3	-2.3	4.0	4.7
Consumer Prices (% change on previous year)		5.4	5.7	9.2	5.8	2.4	4.1
Current Account (US Dollar bn)		-0.3	0.1	0.8	-1.5	-2.6	-2.9

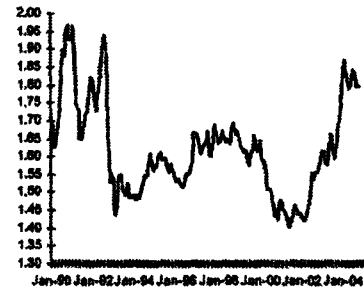
^e = consensus estimate based on latest survey

Foreign Exchange Rates											
*All US\$ rates are amounts of currency per dollar, except the UK pound and the euro which are reciprocals. A positive (+) sign for the % change implies an appreciation of the currency against the US Dollar and vice versa.	Historical Data				Latest Spot Rate (Oct. 11)	Consensus Forecasts					
	Rates at end of:					Forecast End Jan. 2005	Percent Change	Forecast End Oct. 2005	Percent Change	Forecast End Oct. 2006	Percent Change
	2000	2001	2002	2003							
Rates per US Dollar¹											
Canadian Dollar	1.500	1.593	1.580	1.292	1.254	1.288	-2.6	1.289	-2.7	1.303	-3.8
Egyptian Pound	3.690	4.580	4.630	6.153	6.240	6.283	-0.7	6.391	-2.4	6.521	-4.3
European Euro	0.931	0.881	1.049	1.263	1.238	1.230	-0.7	1.237	-0.1	1.226	-1.0
Israeli Shekel	4.041	4.416	4.737	4.379	4.455	4.523	-1.5	4.542	-1.9	4.684	-4.9
Japanese Yen	114.9	131.8	119.9	107.1	109.2	108.1	+1.1	105.8	+3.2	104.6	+4.5
Nigerian Naira	109.6	113.0	126.4	136.5	133.7	138.6	-3.5	151.4	-11.7	172.4	-22.4
Saudi Arabian Riyal	3.751	3.745	3.745	3.750	3.750	3.756	-0.2	3.756	-0.2	3.756	-0.2
South African Rand	7.569	12.13	8.640	6.640	6.554	6.819	-3.9	7.336	-10.7	8.046	-18.6
United Kingdom Pound	1.492	1.450	1.612	1.785	1.795	1.784	-0.7	1.775	-1.2	1.745	-2.8
Rates per Euro											
Danish Krone	7.464	7.412	7.427	7.434	7.439	7.438	0.0	7.456	-0.2	7.456	-0.2
Norwegian Krone	8.234	7.942	7.305	8.436	8.233	8.284	-0.6	8.168	+0.8	8.183	+0.6
Swedish Krona	8.872	9.401	9.254	9.080	9.051	9.020	+0.3	8.944	+1.2	8.874	+2.0
Swiss Franc	1.523	1.478	1.454	1.562	1.549	1.524	+1.7	1.515	+2.2	1.507	+2.8

Yen per US\$

US\$ per Euro¹

US\$ per UK Pound



¹ historical rates up to January 1, 1999, are calculated as "synthetic" euro exchange rates based on a weighted average of the eleven original component currencies.

West Texas Intermediate, US\$ per barrel		
Range 1985-2004	53.7 - 10.4	
Spot Rate (Oct. 11)	53.5	
	Forecast for	
October Survey	End Jan. 2005	End Oct. 2005
Mean Forecast	43.0	38.5
High	60.0	62.0
Low	33.9	28.0
Standard Deviation	4.6	5.8
No. of Forecasts	64	64

Oil Prices Reach New Highs and Threaten Global Activity

West Texas crude prices hit a new high of US\$53.67 following a Russian court upholding a US\$1.4bn back tax demand on Yukos (Russia's largest oil company), raising concerns of output disruption. Elsewhere, supply restrictions continue to have an upward effect on prices. Nigerian oil workers began a 4-day strike, while a series of devastating storms in the Gulf of Mexico over the past month slowed production there. The Venezuelan government's plans to raise exploration fees for foreign oil companies have hit hopes of increased oil capacity. With demand for oil as strong as ever, importing nations will need to adapt to a higher level of energy costs over the longer-term. Indeed, G-7 panellists' oil price forecasts over the next 10 years (which will be published in our forthcoming *Global Outlook* survey of long-term forecasts) confirm this view.

continued from page 3

France											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	4.2	2.1	1.1	0.5	2.5	2.2	2.2	2.3	2.3	2.2	2.2
Household Consumption*	3.0	2.7	1.8	1.7	2.4	2.2	2.3	2.4	2.3	2.1	2.1
Business Investment*	9.1	3.5	-3.8	-1.6	4.3	5.1	3.7	3.4	3.4	3.2	3.2
Industrial Production*	5.1	0.8	-1.9	-0.9	2.4	2.7	2.9	2.8	3.1	2.8	2.6
Consumer Prices*	1.7	1.6	2.0	2.1	2.2	1.8	1.7	1.9	1.9	1.7	1.8
Current Account Balance (Euro bn)	19.5	24.0	15.4	4.8	3.4	4.7	7.9	13.4	14.5	17.5	15.3
10 Year Treasury Bond Yield, % ²	5.0	5.1	4.2	4.4	4.3 ³	4.7 ⁴	4.9	5.0	5.2	5.3	5.0

United Kingdom											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	3.8	2.3	1.8	2.2	3.3	2.6	2.0	2.0	2.1	2.3	2.2
Household Consumption*	4.4	3.1	3.2	2.3	3.1	2.3	1.8	1.8	1.9	2.0	2.2
Gross Fixed Investment*	3.6	2.6	2.7	2.2	6.2	4.3	1.5	1.2	1.2	1.8	2.1
Manufacturing Production*	2.4	-1.3	-3.1	0.4	1.4	2.0	1.5	1.1	0.9	1.2	1.4
Retail Prices (underlying rate)*	2.1	2.1	2.2	2.8	2.3	2.4	2.4	2.5	2.5	2.8	2.7
Consumer Prices*	0.8	1.2	1.3	1.3	1.4	1.8	2.0	2.0	1.9	2.0	2.1
Current Account Balance (£ bn)	-19.1	-22.4	-18.2	-20.4	-25.8	-27.4	-31.6	-30.8	-22.6	-21.3	-20.3
10 Year Treasury Bond Yield, % ²	4.9	5.0	4.4	4.8	5.0 ³	5.1 ⁴	5.0	5.0	4.9	5.0	5.1

Italy											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	3.2	1.7	0.4	0.4	1.2	1.8	2.0	1.8	1.8	1.8	1.9
Household Consumption*	2.8	0.8	0.4	1.2	1.4	1.8	2.0	1.9	1.9	2.1	1.9
Gross Fixed Investment*	7.3	1.6	1.3	-2.1	2.9	3.0	2.8	2.5	2.2	2.4	2.2
Industrial Production*	4.1	-1.2	-1.3	-0.4	0.5	2.1	2.0	1.8	1.8	1.7	1.6
Consumer Prices*	2.5	2.7	2.5	2.7	2.3	2.1	1.9	2.0	1.9	2.0	2.0
Current Account Balance (Euro bn)	-6.3	-0.7	-10.0	-18.4	-17.3	-17.0	-14.5	-12.5	-12.8	-13.5	-11.8
10 Year Treasury Bond Yield, % ²	5.2	5.2	4.3	4.5	4.4 ³	4.8 ⁴	5.1	5.1	5.1	5.0	5.0

Canada											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	5.2	1.8	3.4	2.0	3.0	3.4	3.0	2.9	2.8	2.8	2.7
Personal Expenditure*	4.0	2.7	3.4	3.1	3.3	3.0	3.1	2.8	2.7	2.8	2.6
Machinery & Eqpt Investment*	6.3	-2.2	-1.2	4.5	7.9	9.0	7.0	5.2	4.0	4.3	3.8
Industrial Production*	7.2	-2.3	2.4	0.3	3.4	3.7	3.4	2.5	1.8	3.3	2.4
Consumer Prices*	2.7	2.5	2.3	2.8	1.9	2.1	1.8	2.0	2.0	2.0	2.0
Current Account Balance (C\$ bn)	29.3	25.0	22.7	23.8	37.5	35.1	37.0	35.4	34.4	36.9	40.2
10 Year Treasury Bond Yield, % ²	5.4	5.4	4.7	4.8	5.0 ³	5.4 ⁴	5.9	5.9	5.9	6.1	6.1

Euro zone											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	3.5	1.6	0.8	0.5	1.9	2.0	2.0	2.1	2.1	2.1	2.1
Private Consumption*	2.7	1.9	0.8	1.0	1.3	1.7	2.0	2.0	2.0	2.0	2.0
Gross Fixed Capital Formation*	4.9	-0.3	-2.7	-0.6	1.3	2.9	2.6	2.2	2.5	2.5	2.5
Industrial Production*	5.3	0.4	-0.5	0.3	2.2	2.5	2.1	1.8	2.1	2.1	2.0
Consumer Prices*	2.1	2.4	2.3	2.1	2.1	1.8	1.9	1.9	1.9	1.9	2.0
Current Account Balance (Euro bn)	-79.1	-17.2	53.4	24.2	45.6	45.7	49.2	49.6	52.0	56.3	59.0

¹ End period² Signifies average for period ³ End period ⁴ End January, 2005 ⁵ End October, 2005

The Netherlands											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	3.5	1.4	0.6	-0.9	1.2	1.8	2.1	2.4	2.4	2.3	2.3
Private Consumption*	3.5	1.4	1.3	-0.9	0.4	1.3	1.6	2.1	2.1	2.1	2.1
Gross Fixed Investment*	1.4	0.2	-3.6	-3.1	1.4	2.2	2.7	2.8	2.7	2.4	2.5
Manufacturing Production*	4.4	-0.7	-0.8	-2.8	0.8	2.5	2.4	2.5	2.4	2.3	2.3
Consumer Prices*	2.4	4.2	3.3	2.1	1.3	1.3	1.4	1.6	1.7	1.7	1.7
Current Account Balance (Euro bn)	7.8	8.3	11.2	13.0	14.9	15.8	16.2	16.3	17.2	17.5	18.3
10 Year Treasury Bond Yield, % ²	5.0	5.1	4.2	4.3	4.4 ³	4.7 ⁴	4.9	5.0	5.0	5.1	5.0

Norway											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Dom Prod (Mainland)*	2.4	2.4	1.6	0.5	3.4	2.8	2.4	2.2	2.2	2.4	2.3
Private Consumption*	3.8	1.7	3.6	3.7	4.5	3.7	3.1	2.7	2.2	2.7	2.6
Gross Fixed Investment*	-3.6	-0.6	-3.5	-3.7	5.7	4.6	3.0	2.5	3.0	2.7	3.1
Manufacturing Production*	-3.0	-1.1	-0.9	-4.2	1.8	2.4	2.1	2.9	1.8	2.6	2.4
Consumer Prices*	3.1	3.0	1.3	2.5	0.5	1.8	2.0	2.3	2.3	2.2	2.2
Current Account Balance (Nkr bn)	229	235	196	201	235	224	181	146	139	136	119
10 Year Treasury Bond Yield, % ²	6.0	6.3	5.8	4.5	4.6 ³	5.2 ⁴	5.7	5.3	5.2	5.2	5.2

Spain											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	4.4	2.8	2.2	2.5	2.7	2.7	2.8	3.0	3.0	3.0	2.8
Household Consumption*	4.1	2.8	2.8	2.9	3.2	3.0	3.0	3.0	3.1	3.0	2.8
Gross Fixed Investment*	5.7	3.0	1.7	3.2	3.5	3.9	4.1	4.2	4.5	4.6	4.2
Industrial Production*	4.0	-1.2	0.1	1.6	2.6	2.8	3.3	3.4	3.2	3.0	2.9
Consumer Prices*	3.4	3.6	3.1	3.0	3.0	2.8	2.5	2.6	2.6	2.6	2.5
Current Account Balance (Euro bn)	-21.0	-18.3	-16.9	-20.8	-25.4	-27.7	-25.9	-28.2	-32.2	-34.2	-39.0
10 Year Treasury Bond Yield, % ²	5.2	5.2	4.2	4.3	4.4 ³	4.7 ⁴	5.1	5.2	5.3	5.3	5.1

Sweden											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	4.4	1.2	2.0	1.7	3.4	2.9	2.6	2.4	2.3	2.3	2.4
Household Consumption*	5.0	0.4	1.4	1.9	2.5	2.7	2.5	2.1	1.9	1.8	1.9
Gross Fixed Investment*	5.6	-1.0	-3.0	-2.0	3.1	5.5	5.0	3.8	3.3	2.8	3.2
Mining & Manufacturing Prodn*	6.6	-0.5	0.3	2.1	6.3	5.3	4.5	3.9	3.4	3.5	3.8
Consumer Prices*	1.0	2.4	2.2	1.9	0.6	1.7	2.2	2.1	2.0	2.0	2.0
Current Account, Skr billion	90.8	100	126	157	167	165	166	158	155	150	150
10 Year Treasury Bond Yield, % ²	4.8	5.3	4.6	4.8	4.7 ³	5.0 ⁴	5.1	5.1	5.1	5.0	5.1

Switzerland											
* % change over previous year	Historical				Consensus Forecasts						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010-2014 ¹
Gross Domestic Product*	3.6	1.0	0.3	-0.3	1.8	1.9	1.9	1.8	1.7	1.7	1.7
Private Consumption*	2.3	2.0	0.3	0.5	1.7	1.7	1.8	1.7	1.6	1.5	1.5
Gross Fixed Investment*	4.3	-2.9	0.1	-0.3	3.5	3.2	3.0	2.8	2.7	2.6	2.7
Industrial Production*	8.4	-0.7	-5.1	0.0	3.5	3.3	3.7	2.4	2.2	2.4	2.3
Consumer Prices*	1.6	1.0	0.7	0.6	0.7	1.2	1.5	1.5	1.4	1.4	1.3
Current Account Balance (Swfr bn)	51.7	33.8	36.2	57.0	53.9	51.8	49.8	49.1	50.0	50.9	51.8
10 Year Treasury Bond Yield, % ²	3.5	3.5	2.2	2.6	2.9 ³	3.2 ⁴	3.5	3.7	3.7	3.6	3.6

¹Signifies average for period ²End period ³End January, 2005 ⁴End October, 2005



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CONSENSUS FORECASTS WORLD ECONOMIC ACTIVITY

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October Survey	Real GDP % increase			Consumer Prices % increase			Current Account Balance, US\$bn		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Belgium	1.1	2.4	2.5	1.6	1.8	1.8	9.4	11.6	11.0
Canada	2.0	3.0	3.4	2.8	1.9	2.1	17.0	28.5	27.3
France	0.5	2.5	2.2	2.1	2.2	1.8	5.4	4.2	5.8
Germany	-0.1	1.9	1.6	1.1	1.7	1.4	54.4	91.3	85.3
Italy	0.4	1.2	1.8	2.7	2.3	2.1	-20.8	-21.2	-21.0
Japan	2.5	4.3	1.8	-0.3	-0.1	0.0	136	169	172
Netherlands	-0.9	1.2	1.8	2.1	1.3	1.3	14.7	18.3	19.5
Norway	0.5	3.4	2.8	2.5	0.5	1.8	28.4	34.4	33.7
Spain	2.5	2.7	2.7	3.0	3.0	2.8	-23.5	-31.1	-34.2
Sweden	1.7	3.4	2.9	1.9	0.6	1.7	19.5	22.4	22.6
Switzerland	-0.3	1.8	1.9	0.6	0.7	1.2	42.4	42.8	42.1
United Kingdom	2.2	3.3	2.6	2.8	2.3	2.4	-33.3	-46.7	-46.7
United States	3.0	4.4	3.5	2.3	2.6	2.3	-531	-640	-671
North America ¹	2.9	4.3	3.5	2.3	2.6	2.3	-514	-612	-644
Western Europe ²	0.8	2.3	2.2	2.1	1.9	1.9	88.7	120.3	110.8
European Union ²	1.0	2.4	2.3	2.1	2.1	2.0	-3.3	20.3	11.3
Euro zone ²	0.5	1.9	2.0	2.1	2.1	1.8	27.4	56.0	56.4
Asia Pacific ³	3.7	5.2	3.3	0.5	1.2	1.2	262	266	259
Eastern Europe ⁴	5.6	6.8	5.5	11.1	8.3	7.3	1.4	3.5	-7.9
Latin America ⁵	1.7	5.2	3.7	7.6	7.4	6.6	10.8	14.3	-1.5
Other Countries ⁶	4.5	3.8	3.2	3.6	3.4	3.8	32.9	50.0	33.2
Total	2.6	4.1	3.1	2.4	2.5	2.4			

Regional totals, as well as the grand total for GDP growth and inflation, are weighted averages calculated using 2000 GDP weights, converted at average 2000 exchange rates. Current account forecasts given in national currencies on pages 7-24 have been converted using consensus exchange rate forecasts for the purposes of comparison. ¹USA and Canada. ²The Euro zone aggregate is taken from our panel's latest forecasts (pages 18-19). The Euro zone current account data and forecasts are based on *extra-euro zone data*, i.e., they are compiled from an aggregate of the Euro zone member states' transactions only with nonresidents of the Euro zone. The European Union data includes the Euro zone countries listed on page 18 plus Denmark, Sweden and the United Kingdom, as well as May 2004 entrants the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia (data taken from Eastern Europe Consensus Forecasts). Western Europe comprises the Euro zone plus Denmark, Sweden and the United Kingdom, along with Norway and Switzerland. ³Survey results for Japan plus eleven other countries taken from Asia Pacific Consensus Forecasts. ⁴Nineteen countries, including eight European Union countries taken from the latest issue of Eastern Europe Consensus Forecasts. ⁵Fourteen countries taken from the latest issue of Latin American Consensus Forecasts (inflation figures are on a December/December basis). ⁶Egypt, Israel, Nigeria, Saudi Arabia and South Africa.

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Appendix C
Cash Flow Timing Estimate

Table C
Amazon
Quarterly Revenues
2002-2005
 Figures in \$ millions

<u>Line</u>		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2002-2005</u>	<u>Source</u>
	Revenue						
101	Q1	847.4	1,083.6	1,530.3	1,902.0	5,363.3	Compustat
102	Q2	805.6	1,099.9	1,387.3	1,753.0	5,045.9	Compustat
103	Q3	851.3	1,134.5	1,462.5	1,858.0	5,306.2	Compustat
104	Q4	1,428.6	1,945.8	2,541.0	2,977.0	8,892.3	Compustat
105	Total	3,932.9	5,263.7	6,921.1	8,490.0	24,607.8	Sum Lns 101 to 104
	Period						
106	Q1	0.125	0.125	0.125	0.125	0.125	Quarter Midpoint
107	Q2	0.375	0.375	0.375	0.375	0.375	Quarter Midpoint
108	Q3	0.625	0.625	0.625	0.625	0.625	Quarter Midpoint
109	Q4	0.875	0.875	0.875	0.875	0.875	Quarter Midpoint
110	Revenue Discounted to Beginning of Year	2,190.1	2,959.5	3,848.9	4,661.3	13,659.8	Sumproduct (Lns101-104,106-109)
111	Midpoint	0.557	0.562	0.556	0.549	0.555	Ln 110 / Ln 105

Appendix D
Summary of Merchants@ Program

Appendix D Merchants @ Program Summary

Through its Merchants@ program, third parties sell their products on Amazon's websites, either in Amazon's online retail stores or in a co-branded store on Amazon's websites, or both. This program is available to merchants who wished to sell products through Amazon's .uk, .de and .fr websites. Typical participants in the Merchants@ program are larger, branded businesses that are primarily focused on expanding the selection of new products available on Amazon's websites.

We reviewed current versions of the agreements between Amazon and participants in the Merchants@ program in the UK, Germany, and France as provided to us in response to IDR 67. A third-party merchant enters into Business Solutions Agreement with Amazon Services Europe SARL.³ Under a Business Solutions Agreement, Amazon agrees to provide selling services to individuals and commercial businesses who wish to list their products for sale on the Amazon website. In exchange for the services provided by Amazon, third-party merchants pay Amazon a fixed monthly subscription fee as well as a referral fee and a closing fee; the latter two fees vary by product category and by country.⁴

³ There are different agreements for merchants who wish to sell through Amazon's .uk, .de, and .fr websites. There are only small variations between the three agreements; this summary refers to the agreement from the UK.

⁴ For instance, for Amazon's .uk website, the current referral fees vary from 7.0% to 25.0% depending on product category. The variable closing fee ranges from £0.14 per unit to £1.15 per unit. UK Business Solutions Agreement, page 14.

A third-party merchant may enter into a Business Solutions Agreement as long as it is of legal-standing under applicable law and it is willing to provide a legal name, address, phone-number and valid credit card to Amazon. The third-party must also consent not to offer the product at a lower price through any other sales venues. Amazon then agrees to list the third-parties products for sale in the applicable product category and conduct merchandising and promoting services as determined appropriate by Amazon.

In addition to these responsibilities, the third-party must grant Amazon a "royalty-free, non-exclusive, worldwide, irrevocable right and license... to use, reproduce, perform, display, distribute, adapt, modify, re-format, create derivative works of, and otherwise commercially or non-commercially exploit in any manner..." all products listed by the third-party on the Amazon website.⁵ The third party is responsible for all risks associated with the sale of the product with the exception of risk of credit card fraud, for which Amazon bears the risk.⁶

If it chooses (and for an additional fee), a third-party merchant may list its products as "Amazon Fulfilled Products", in which case Amazon acts as a clearinghouse and provides shipping and handling services. For Amazon Fulfilled Products, a merchant ships products, at its own cost, to the UK fulfillment center with proper packaging including complying with Amazon's labeling and other requirements.⁷ Amazon charges fees for Amazon Fulfilled Products which are in addition to those discussed above. These fees including

⁵ UK Business Solutions Agreement, General Term #4, "License".

⁶ UK Business Solutions Agreement, Selling on Amazon Services Term #S-5, "Compensation".

⁷ UK Business Solutions Agreement, Fulfillment by Amazon Service Term #F-3, "Shipping to Amazon".

storage, fulfillment, removal and disposal fees and are set forth in a "Fulfillment by Amazon Fee Schedule" that may be updated from time to time.⁸

Otherwise, the third-party merchant products are termed "Seller Fulfilled Products" and the third-party is responsible for complying with all sourcing, packaging, shipping, delivery and refunding policies as instructed by Amazon.⁹ These policies include delivering products in a timely manner, responding promptly to customer requests and refraining from sending superfluous emails to customers.

⁸ UK Business Solutions Agreement, Fulfillment by Amazon Service Term #F-9.1, "Fees".

⁹ UK Business Solutions Agreement, pages 9-10.

Appendix E
Merchants@ Analysis

Table E
Merchants @ Analysis
Commission Rates
2005-2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total 2005-2007</u>	<u>Source</u>
<u>Top Three Merchants</u>					
<i>Sales through Amazon</i>					
101 Merchants @ in UK Market	\$36,059,064	\$62,658,844	\$93,435,199	\$192,153,107	Table E-1, Ln 107
102 Merchants @ in DE Market	\$22,437,362	\$23,901,026	\$29,658,519	\$75,996,907	Table E-2, Ln 208
103 Merchants @ in FR Market	\$9,041,482	\$11,805,466	\$15,949,755	\$36,796,704	Table E-3, Ln 307
104 Total	\$67,537,909	\$98,365,336	\$139,043,473	\$304,946,717	Sum Lns 101 to 103
<i>Commissions/fees paid to Amazon</i>					
105 Merchants @ in UK Market	\$5,414,551	\$7,824,595	\$11,483,926	\$24,723,072	Table E-1, Ln 114
106 Merchants @ in DE Market	\$3,239,515	\$3,372,191	\$3,726,082	\$10,337,768	Table E-2, Ln 216
107 Merchants @ in FR Market	\$1,119,263	\$1,468,452	\$1,932,120	\$4,519,836	Table E-3, Ln 314
108 Total	\$9,773,330	\$12,665,238	\$17,142,108	\$39,580,676	Sum Lns 105 to 107
109 Weighted avg commissions/fees %	14.5%	12.9%	12.3%	13.0%	Ln 108 / Ln 104
<u>Consolidated Company Estimates</u>					
<i>Estimated sales through Amazon</i>					
110 Merchants @ in UK Market	\$240,144,661	\$452,881,054	\$758,561,327	\$1,451,587,042	Table E-1, Ln 123
111 Merchants @ in DE Market	\$151,884,766	\$228,325,776	\$509,486,834	\$889,697,376	Table E-2, Ln 226
112 Merchants @ in FR Market	\$24,026,647	\$36,777,164	\$59,862,484	\$120,666,295	Table E-3, Ln 323
113 Total	\$416,056,074	\$717,983,993	\$1,327,910,645	\$2,481,950,713	Sum Lns 110 to 112
<i>Pre-tax income less services markup</i>					
114 Merchants @ in UK Market	\$33,536,234	\$62,300,688	\$101,514,207	\$197,351,130	Table E-1, Ln 131
115 Merchants @ in DE Market	\$21,148,724	\$46,127,869	\$89,781,184	\$157,057,777	Table E-2, Ln 234
116 Merchants @ in FR Market	\$1,911,262	\$4,112,027	\$8,185,473	\$14,208,761	Table E-3, Ln 331
117 Merchants @ Luxembourg Functions	\$112,892	(\$2,089,958)	(\$868,916)	(\$2,845,982)	Table E-4, Ln 407
118 Total	\$56,709,112	\$110,450,626	\$198,611,948	\$365,771,685	Sum Lns 114 to 117
119 Implied commission rate before IDCs adjustment	13.6%	15.4%	15.0%	14.9%	Ln 118 / Ln 113
120 Cost share payment % (IDCs)	2.9%	2.3%	1.9%	2.3%	Table 1, in 114
121 Implied net commission rate	10.7%	13.0%	13.0%	12.5%	Ln 119 - Ln 120

Table E-1
Merchants @ In UK Market
Commission Rates
2005-2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u> <u>2005-2007</u>	<u>Source</u>
Top Three Merchants					
<i>Sales through Amazon</i>					
101 Tower USA	£10,203,242	£11,547,263	£10,566,333	£32,336,838	IDR-66
102 The Book Depository	£5,696,964	£12,138,467	£20,987,483	£38,822,894	IDR-66
103 Findprice	£3,939,491	NA	NA	£3,939,491	IDR-66
104 Pixmania	NA	£10,350,554	£15,115,773	£25,466,327	IDR-66
105 Total sales - £	£19,839,697	£34,036,284	£46,689,569	£100,565,550	Sum Lns 101 to 104
106 Exchange rate (£/\$)	0.5502	0.5432	0.4997		Bloomberg
107 Total sales - \$	\$36,058,064	\$62,658,844	\$93,435,199	\$192,153,107	Ln 105 / Ln 106
<i>Commissions/fees paid to Amazon</i>					
108 Tower USA	£1,541,137	£1,760,856	£1,575,419	£4,877,412	IDR-66
109 The Book Depository	£856,143	£1,843,450	£3,154,264	£5,853,857	IDR-66
110 Findprice	£581,806	NA	NA	£581,806	IDR-66
111 Pixmania	NA	£646,014	£1,008,835	£1,654,849	IDR-66
112 Total commissions/fees - £	£2,979,086	£4,250,320	£5,738,518	£12,967,924	Sum Lns 108 to 111
113 Exchange rate (£/\$)	0.5502	0.5432	0.4997		Ln 106
114 Total commissions/fees - \$	\$5,414,551	\$7,824,595	\$11,483,926	\$24,723,072	Ln 112 / Ln 113
<i>Commissions/fee rates</i>					
115 Tower USA	15.1%	15.2%	14.9%	15.1%	Ln 108 / Ln 101
116 The Book Depository	15.0%	15.2%	15.0%	15.1%	Ln 109 / Ln 102
117 Findprice	14.8%	NA	NA	14.8%	Ln 110 / Ln 103
118 Pixmania	NA	6.2%	6.7%	6.5%	Ln 111 / Ln 104
119 Weighted average	15.0%	12.5%	12.3%	12.9%	Ln 112 / Ln 105
Consolidated Company Estimates					
120 42573 Merchant Commission Revenue	\$34,966,137	\$53,752,651	\$92,159,843		Table E-1A, Ln 113
121 82412 Intercompany Commission Income	\$1,093,466	\$2,801,390	\$1,073,555		Table E-1A, Ln 132
122 Total Commission Revenue	\$36,059,603	\$56,554,041	\$93,233,398	\$185,846,842	Ln 120 + Ln 121
123 Estimated sales through Amazon	\$240,144,681	\$452,861,054	\$758,561,327	\$1,451,567,042	Ln 122 / Ln 119
124 Pre-tax income	\$34,515,899	\$63,048,603	\$102,516,671	\$200,081,173	Table E-1A, Ln 140
125 Implied commission rate before services markup and IDCs adjustments	14.4%	13.9%	13.5%	13.8%	Ln 124 / Ln 123
<i>Services markup adjustment</i>					
<i>Services Expenses</i>					
126 Total Operating Expenses	\$7,836,338	\$10,500,804	\$20,049,948		Table E-1A, Ln 125
127 Total intercompany income/(Expense)	(\$11,756,953)	(\$4,457,499)	\$676		Table E-1A, Ln 137 - Ln 121
128 Total Services Expenses	\$19,593,291	\$14,958,303	\$20,049,272		Ln 126 - Ln 127
129 Markup percentage	5.0%	5.0%	5.0%		Assumption
130 Services Markup	\$979,665	\$747,915	\$1,002,464		Ln 128 x Ln 129
131 Pre-tax income less services markup	\$33,536,234	\$62,300,688	\$101,514,207	\$197,351,130	Ln 124 - Ln 130
132 Implied commission rate before IDCs adjustment	14.0%	13.8%	13.4%	13.6%	Ln 131 / Ln 123
<i>IDCs adjustment</i>					
133 Cost share payment % (IDCs)	2.9%	2.3%	1.9%	2.2%	Table 1, Ln 114
134 Implied net commission rate	11.0%	11.4%	11.4%	11.4%	Ln 125 - Ln 133

Table E-1A
Merchants @ in UK Market
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
101	40850 IGC's - Business Development	\$0	\$0	(\$1,031,473)	Table E-1B + Table E-1C, Ln 101
102	40880 Loyalty Promotion Discount	(\$552,910)	(\$1,880,347)	(\$2,526,457)	Table E-1B + Table E-1C, Ln 102
103	41400 Customer Service Adjustments	(\$88,978)	(\$85,439)	(\$94,462)	Table E-1B + Table E-1C, Ln 103
104	41201 Customer Refunds Payment Services	(\$3,210,328)	(\$3,781,940)	(\$6,101,923)	Table E-1B + Table E-1C, Ln 104
105	41250 Guarantee Refund	(\$80,145)	\$0	\$0	Table E-1B + Table E-1C, Ln 105
106	42101 Marketplace Royalty Revenue	\$0	\$3	\$0	Table E-1B + Table E-1C, Ln 106
107	42510 Auction-Listing Revenue	\$1,939	\$1,719	\$1,620	Table E-1B + Table E-1C, Ln 107
108	42520 Auction-Commission Revenue	\$31,362	\$29,320	\$29,862	Table E-1B + Table E-1C, Ln 108
109	42530 Payment Services - Auctions	\$3,476	\$2,327	\$1,043	Table E-1B + Table E-1C, Ln 109
110	42531 Payment Services - zShops	\$17,808	\$12,099	\$5,522	Table E-1B + Table E-1C, Ln 110
111	42562 zShops-Merchandising Revenue	\$27,480	\$0	\$0	Table E-1B + Table E-1C, Ln 111
112	42570 Merchant Insertion Revenue	\$3,079,199	\$1,457,792	\$4,092,069	Table E-1B + Table E-1C, Ln 112
113	42573 Merchant Commission Revenue	\$34,966,137	\$53,752,651	\$92,159,643	Table E-1B + Table E-1C, Ln 113
114	42574 Merchant Subscription Revenue	\$1,946,407	\$2,573,587	\$3,937,989	Table E-1B + Table E-1C, Ln 114
115	42575 Closing Fee Revenue	\$9,601,205	\$14,397,984	\$24,036,230	Table E-1B + Table E-1C, Ln 115
116	42580 MP Giftwrap Commission Revenue	\$0	\$23	\$3,588	Table E-1B + Table E-1C, Ln 116
117	45122 Seller Credits	(\$104,519)	\$11,406	\$438,893	Table E-1B + Table E-1C, Ln 117
118	42620 Other Service Revenue	\$4,267,618	\$6,891,163	\$6,558,480	Table E-1B + Table E-1C, Ln 118
119	Total Net Revenue	\$49,925,751	\$73,382,348	\$121,510,624	Sum Lns 101 to 118
120	Total Cost Of Sales	\$0	\$0	\$27,191	Table E-1B + Table E-1C, Ln 120
121	Total Gross Profit	\$49,925,751	\$73,382,348	\$121,483,433	Ln 119 - Ln 120
<i>Operating Expenses</i>					
122	Total Selling Expenses	\$0	\$0	(\$9,280)	Table E-1B + Table E-1C, Ln 122
123	Total Administrative Expenses	\$7,836,338	\$10,500,804	\$20,080,602	Table E-1B + Table E-1C, Ln 123
124	Total Third Party Agreements	\$0	\$0	(\$21,374)	Table E-1B + Table E-1C, Ln 124
125	Total Operating Expenses	\$7,836,338	\$10,500,804	\$20,049,948	Sum Lns 122 to 124
126	Consolidated Segment Operating Income	\$42,089,413	\$62,881,544	\$101,433,485	Ln 121 - Ln 125
<i>Other Income/(Expense)</i>					
127	82450 Miscellaneous Gains/(Losses)	(\$155,692)	\$342,413	\$5,966	Table E-1B + Table E-1C, Ln 127
128	83150 Foreign Currency Loss	(\$3,288)	\$1,967	\$0	Table E-1B + Table E-1C, Ln 128
129	Total	(\$158,980)	\$344,380	\$5,966	Ln 127 + Ln 128
<i>Intercompany Income/(Expense)</i>					
130	82405 Management Fee Expense	(\$3,506,719)	(\$971,430)	\$0	Table E-1B + Table E-1C, Ln 130
131	82407 Royalty Expense	(\$5,051,863)	(\$2,123,544)	\$0	Table E-1B + Table E-1C, Ln 131
132	82412 Intercompany Commission Income	\$1,093,466	\$2,801,390	\$1,073,555	Table E-1B + Table E-1C, Ln 132
133	82413 Intercompany Commission Expense	(\$3,002,817)	(\$1,254,882)	\$0	Table E-1B + Table E-1C, Ln 133
134	82415 Service Fee Income	\$5,560,023	\$2,255,733	\$676	Table E-1B + Table E-1C, Ln 134
135	82416 Service Fee Expense	(\$5,575,582)	(\$2,254,724)	\$0	Table E-1B + Table E-1C, Ln 135
136	82417 Data Center Income/Expense	(\$179,995)	(\$108,652)	\$0	Table E-1B + Table E-1C, Ln 136
137	Total Intercompany Income/(Expense)	(\$10,663,487)	(\$1,656,109)	\$1,074,231	Sum Lns 130 to 136
138	Total Other Income/(Expense)	(\$10,822,467)	(\$1,311,729)	\$1,080,197	Ln 129 + Ln 137
139	Net Interest Income (Expense)	\$3,248,953	\$1,478,788	\$2,989	Table E-1B + Table E-1C, Ln 139
140	Pre-tax income	\$34,515,899	\$63,048,603	\$102,516,671	Ln 126 + Ln 138 + Ln 139

Table E-1B
AIM-UK
Income Statement Summary
2005 to 2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>				
101	40850 IGC's - Business Development			
102	40880 Loyalty Promotion Discount	(\$552,910)	(\$558,041)	NA IDR 64
103	41400 Customer Service Adjustments	(\$88,978)	(\$27,998)	NA IDR 64
104	41201 Customer Refunds Payment Services	(\$3,210,328)	(\$909,561)	NA IDR 64
105	41250 Guarantee Refund	(\$80,145)	\$0	NA IDR 64
106	42101 Marketplace Royalty Revenue	NA	NA	NA IDR 64
107	42510 Auction-Listing Revenue	\$1,939	\$668	NA IDR 64
108	42520 Auction-Commission Revenue	\$31,362	\$13,232	NA IDR 64
109	42530 Payment Services - Auctions	\$3,476	\$1,201	NA IDR 64
110	42531 Payment Services - zShops	\$17,808	\$5,508	NA IDR 64
111	42562 zShops-Merchandising Revenue	\$27,480	\$0	NA IDR 64
112	42570 Merchant Insertion Revenue	\$3,079,199	\$390,443	NA IDR 64
113	42573 Merchant Commission Revenue	\$34,966,137	\$14,202,653	NA IDR 64
114	42574 Merchant Subscription Revenue	\$1,946,407	\$787,834	NA IDR 64
115	42575 Closing Fee Revenue	\$9,601,205	\$3,834,750	NA IDR 64
116	42580 MP Giftwrap Commission Revenue	NA	NA	NA IDR 64
117	45122 Seller Credits	(\$109,332)	\$41,388	NA IDR 64
118	42620 Other Service Revenue	\$4,287,618	\$2,908,335	NA IDR 64
119	Total Net Revenue	\$49,920,938	\$20,690,412	NA Sum Lns 102 to 118
120	Total Cost Of Sales	NA	NA	NA IDR 64
121	Total Gross Profit	\$49,920,938	\$20,690,412	NA Ln 119 - Ln 120
<i>Operating Expenses</i>				
122	Total Selling Expenses	NA	NA	NA IDR 64
123	Total Administrative Expenses	\$2,603,052	\$484,897	NA IDR 64
124	Total Third Party Agreements	NA	NA	NA IDR 64
125	Total Operating Expenses	\$2,603,052	\$484,897	NA Ln 123
126	Consolidated Segment Operating Income	\$47,317,886	\$20,205,515	NA Ln 119 - Ln 123
<i>Other Income/(Expense)</i>				
127	82450 Miscellaneous Gains/(Losses)	(\$199,436)	\$169,793	NA IDR 64
128	83150 Foreign Currency Loss	NA	NA	NA IDR 64
129	Total	(\$199,436)	\$169,793	NA Ln 127 + Ln 128
<i>Intercompany Income/(Expense)</i>				
130	82405 Management Fee Expense	(\$3,506,719)	(\$971,430)	NA IDR 64
131	82407 Royalty Expense	(\$5,051,863)	(\$2,123,644)	NA IDR 64
132	82412 Intercompany Commission Income	\$1,093,466	\$965,231	NA IDR 64
133	82413 Intercompany Commission Expense	(\$3,002,817)	(\$1,242,326)	NA IDR 64
134	82415 Service Fee Income	\$221	\$176	NA IDR 64
135	82416 Service Fee Expense	(\$5,554,371)	(\$2,254,724)	NA IDR 64
136	82417 Data Center Income/Expense	(\$179,995)	(\$108,652)	NA IDR 64
137	Total Intercompany Income/(Expense)	(\$16,202,078)	(\$5,735,269)	NA Sum Lns 130 to 136
138	Total Other Income/(Expense)	(\$16,401,514)	(\$5,565,476)	NA Ln 127 + Ln 137
139	Net Interest Income (Expense)	\$2,659,944	\$726,359	NA IDR 64
140	Pre-tax income	\$33,576,316	\$15,366,398	NA Ln 126 + Ln 138 + Ln 139

Note: Data for Company=40 (Amazon Int'l Marketplace - UK)

Table E-1C
ASE-UK
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
101	40850 IGC's - Business Development	\$0	\$0	(\$1,031,473)	IDR 64
102	40880 Loyalty Promotion Discount	\$0	(\$1,322,306)	(\$2,526,457)	IDR 64
103	41400 Customer Service Adjustments	\$0	(\$57,443)	(\$94,462)	IDR 64
104	41201 Customer Refunds Payment Services	\$0	(\$2,872,379)	(\$6,101,923)	IDR 64
105	41250 Guarantee Refund	NA	NA	NA	IDR 64
106	42101 Marketplace Royalty Revenue	\$0	\$3	\$0	IDR 64
107	42510 Auction-Listing Revenue	\$0	\$1,053	\$1,620	IDR 64
108	42520 Auction-Commission Revenue	\$0	\$16,088	\$29,882	IDR 64
109	42530 Payment Services - Auctions	\$0	\$1,126	\$1,043	IDR 64
110	42531 Payment Services - zShops	\$0	\$6,591	\$5,522	IDR 64
111	42562 zShops-Merchandising Revenue	NA	NA	NA	IDR 64
112	42570 Merchant Insertion Revenue	\$0	\$1,067,349	\$4,092,069	IDR 64
113	42573 Merchant Commission Revenue	\$0	\$39,549,998	\$92,159,643	IDR 64
114	42574 Merchant Subscription Revenue	\$0	\$1,785,753	\$3,937,989	IDR 64
115	42575 Closing Fee Revenue	\$0	\$10,563,234	\$24,036,230	IDR 64
116	42580 MP Giftwrap Commission Revenue	\$0	\$23	\$3,588	IDR 64
117	45122 Seller Credits	\$4,813	(\$29,982)	\$438,893	IDR 64
118	42620 Other Service Revenue	\$0	\$3,982,828	\$6,558,480	IDR 64
119	Total Net Revenue	\$4,813	\$52,691,936	\$121,510,624	Sum Lns 101 to 118
120	Total Cost Of Sales	\$0	\$0	\$27,191	IDR 64
121	Total Gross Profit	\$4,813	\$52,691,936	\$121,483,433	Ln 119 - Ln 120
<i>Operating Expenses</i>					
122	Total Selling Expenses	\$0	\$0	(\$9,280)	IDR 64
123	Total Administrative Expenses	\$5,233,286	\$10,015,907	\$20,080,602	IDR 64
124	Total Third Party Agreements	\$0	\$0	(\$21,374)	IDR 64
125	Total Operating Expenses	\$5,233,286	\$10,015,907	\$20,049,948	Sum Lns 122 to 124
126	Consolidated Segment Operating Income	(\$5,228,473)	\$42,676,029	\$101,433,485	Ln 121 - Ln 125
<i>Other Income/(Expense)</i>					
127	82450 Miscellaneous Gains/(Losses)	\$43,744	\$172,620	\$5,966	IDR 64
128	83150 Foreign Currency Loss	(\$3,288)	\$1,967	\$0	IDR 64
129	Total	\$40,456	\$174,587	\$5,966	Ln 127 + Ln 128
<i>Intercompany Income/(Expense)</i>					
130	82405 Management Fee Expense	NA	NA	NA	IDR 64
131	82407 Royalty Expense	NA	NA	NA	IDR 64
132	82412 Intercompany Commission Income	\$0	\$1,836,159	\$1,073,555	IDR 64
133	82413 Intercompany Commission Expense	\$0	(\$12,556)	\$0	IDR 64
134	82415 Service Fee Income	\$5,559,802	\$2,255,557	\$676	IDR 64
135	82416 Service Fee Expense	(\$21,211)	\$0	\$0	IDR 64
136	82417 Data Center Income/Expense	NA	NA	NA	IDR 64
137	Total	\$5,538,591	\$4,078,160	\$1,074,231	Sum Lns 130 to 136
138	Total Other Income/(Expense)	\$5,579,047	\$4,253,747	\$1,080,197	Ln 129 + Ln 137
139	Net Interest Income (Expense)	\$589,009	\$752,429	\$2,989	IDR 64
140	Pre-tax income	\$939,583	\$47,682,205	\$102,516,671	Ln 126 + Ln 138 + Ln 139

Note: Date for Company=4U (Amazon Services Europe UK)

Table E-2
Merchants @ In DE Market
Commission Rates
2005-2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u> <u>2005-2007</u>	<u>Source</u>
<u>Top Three Merchants</u>					
<i>Sales through Amazon</i>					
201 Avides	€ 8,029,784	€ 7,964,964	€ 8,524,074	€ 24,518,822	IDR-66
202 Caiman Amerika	€ 7,648,575	€ 7,882,302	€ 8,634,013	€ 24,164,890	IDR-66
203 Superbookdeals DE	€ 2,381,474	NA	NA	€ 2,381,474	IDR-66
204 SMM Online	NA	€ 3,189,901	NA	€ 3,189,901	IDR-66
205 Mindfactory AG	NA	NA	€ 4,507,461	€ 4,507,461	IDR-66
206 Total sales - €	€ 18,059,833	€ 19,037,167	€ 21,665,548	€ 58,762,548	Sum Lns 201 to 205
207 Exchange Rate (€/€)	0.8049	0.7965	0.7305		Bloomberg
208 Total sales - \$	\$22,437,362	\$23,901,028	\$29,658,519	\$75,996,907	Ln 206 / Ln 207
<i>Commissions/fees paid to Amazon</i>					
209 Avides	€ 715,177	€ 719,105	€ 743,971	€ 2,178,253	IDR-66
210 Caiman Amerika	€ 1,474,876	€ 1,521,646	€ 1,644,854	€ 4,641,176	IDR-66
211 Superbookdeals DE	€ 417,633	NA	NA	€ 417,633	IDR-66
212 SMM Online	NA	€ 445,199	NA	€ 445,199	IDR-66
213 Mindfactory AG	NA	NA	€ 333,063	€ 333,063	IDR-66
214 Total commissions/fees - €	€ 2,607,486	€ 2,685,950	€ 2,721,888	€ 8,015,324	Sum Lns 209 to 213
215 Exchange Rate (€/€)	0.8049	0.7965	0.7305		Ln 207
216 Total commissions/fees - \$	\$3,239,515	\$3,372,191	\$3,726,062	\$10,337,768	Ln 214 / Ln 215
<i>Commissions/fee rates</i>					
217 Avides	8.9%	9.0%	8.7%	8.9%	Ln 209 / Ln 201
218 Caiman Amerika	19.3%	19.3%	19.1%	19.2%	Ln 210 / Ln 202
219 Superbookdeals DE	17.5%	NA	NA	17.5%	Ln 211 / Ln 203
220 SMM Online	NA	14.0%	NA	14.0%	Ln 212 / Ln 204
221 Mindfactory AG	NA	NA	7.4%	7.4%	Ln 213 / Ln 205
222 Weighted average	14.4%	14.1%	12.6%	13.6%	Ln 214 / Ln 206
<u>Consolidated Company Estimates</u>					
223 42573 Merchant Commission Revenue	\$21,801,489	\$31,674,890	\$62,775,347		Table E-2A, Ln 209
224 82412 Intercompany Commission Income	\$127,695	\$539,547	\$1,232,547		Table E-2A, Ln 225
225 Total Commission Revenue	\$21,929,184	\$32,214,437	\$64,007,894	\$118,151,515	Ln 120 + Ln 121
226 Estimated sales through Amazon	\$151,864,766	\$228,325,776	\$509,486,834	\$889,697,376	Ln 225 / Ln 222
227 Pre-tax income	\$21,862,295	\$46,438,680	\$90,257,660	\$158,558,635	Table E-2A, Ln 233
228 Implied commission rate before services markup and IDCs adjustments	14.4%	20.3%	17.7%	17.8%	Ln 227 / Ln 226
<i>Services markup adjustment</i>					
<i>Services Expenses</i>					
229 Total Operating Expenses	\$5,305,828	\$4,494,620	\$9,530,249		Table E-2A, Ln 220
230 Total Intercompany Income/(Expense)	(\$8,865,600)	(\$1,721,599)	\$726		Table E-2A, Ln 230 - Ln 224
231 Total Services Expenses	\$14,271,428	\$6,216,219	\$9,529,523		Ln 229 - Ln 230
232 Markup percentage	5.0%	5.0%	5.0%		Assumption
233 Services Markup	\$713,571	\$310,811	\$476,476		Ln 231 x Ln 232
234 Pre-tax income less services markup	\$21,148,724	\$46,127,869	\$89,781,184	\$157,057,777	Ln 227 - Ln 233
235 Implied commission rate before IDCs adjustment	13.9%	20.2%	17.6%	17.7%	Ln 234 / Ln 226
<i>IDCs adjustment</i>					
236 Cost share payment % (IDCs)	2.9%	2.3%	1.9%	2.2%	Table 1, ln 114
237 Implied net commission rate	11.0%	17.9%	15.7%	15.4%	Ln 228 - Ln 236

Table E-2A
Merchants @ In DE Market
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
201	41400 Customer Service Adjustments	(\$50,610)	(\$59,106)	(\$77,112)	Table E-2B + Table E-2C, Ln 201
202	41201 Customer Refunds Payment Services	(\$2,126,905)	(\$2,649,243)	(\$4,687,942)	Table E-2B + Table E-2C, Ln 202
203	42510 Auction-Listing Revenue	\$2,503	\$2,569	\$2,682	Table E-2B + Table E-2C, Ln 203
204	42520 Auction-Commission Revenue	\$14,068	\$8,738	\$4,298	Table E-2B + Table E-2C, Ln 204
205	42530 Payment Services - Auctions	\$939	\$528	\$538	Table E-2B + Table E-2C, Ln 205
206	42531 Payment Services - zShops	\$12,810	\$7,988	\$2,565	Table E-2B + Table E-2C, Ln 206
207	42562 zShops-Merchandising Revenue	\$6,275	\$0	\$0	Table E-2B + Table E-2C, Ln 207
208	42570 Merchant Insertion Revenue	\$3,277,511	\$3,401,169	\$4,098,768	Table E-2B + Table E-2C, Ln 208
209	42573 Merchant Commission Revenue	\$21,801,489	\$31,674,890	\$62,775,347	Table E-2B + Table E-2C, Ln 209
210	42574 Merchant Subscription Revenue	\$1,504,142	\$1,979,618	\$3,225,668	Table E-2B + Table E-2C, Ln 210
211	42575 Closing Fee Revenue	\$11,888,905	\$15,439,954	\$24,859,478	Table E-2B + Table E-2C, Ln 211
212	42580 MP Giftwrap Commission Revenue	\$0	\$19	\$417	Table E-2B + Table E-2C, Ln 212
213	45122 Seller Credits	(\$24,594)	\$93,935	(\$158,679)	Table E-2B + Table E-2C, Ln 213
214	42620 Other Service Revenue	\$0	\$1,840,310	\$8,702,760	Table E-2B + Table E-2C, Ln 214
215	Total Net Revenue	\$36,306,533	\$51,741,369	\$98,548,788	Sum Lns 201 to 214
216	Total Cost Of Sales	\$0	\$0	(\$450)	Table E-2B + Table E-2C, Ln 216
217	Total Gross Profit	\$36,306,533	\$51,741,369	\$98,549,238	Ln 215 - Ln 216
<i>Operating Expenses</i>					
218	Total Employee Expenses	\$1,285	\$0	\$0	Table E-2B + Table E-2C, Ln 218
219	Total Administrative Expenses	\$5,304,543	\$4,494,620	\$9,530,249	Table E-2B + Table E-2C, Ln 219
220	Total Operating Expenses	\$5,305,828	\$4,494,620	\$9,530,249	Ln 218 + Ln 219
221	Consolidated Segment Operating Income	\$31,000,705	\$47,246,749	\$89,018,989	Ln 217 - Ln 220
222	82450 Miscellaneous Gains/(Losses)	(\$292,609)	\$339,437	\$5,077	Table E-2B + Table E-2C, Ln 222
<i>Intercompany Income/(Expense)</i>					
223	82405 Management Fee Expense	(\$3,136,572)	(\$759,350)	\$0	Table E-2B + Table E-2C, Ln 223
224	82407 Royalty Expense	(\$3,628,826)	(\$1,420,641)	\$0	Table E-2B + Table E-2C, Ln 224
225	82412 Intercompany Commission Income	\$127,695	\$539,547	\$1,232,547	Table E-2B + Table E-2C, Ln 225
226	82413 Intercompany Commission Expense	(\$2,143,292)	(\$809,602)	\$0	Table E-2B + Table E-2C, Ln 226
227	82415 Service Fee Income	\$1,111,446	\$300,908	\$726	Table E-2B + Table E-2C, Ln 227
228	82416 Service Fee Expense	(\$1,135,357)	\$982,608	\$0	Table E-2B + Table E-2C, Ln 228
229	82417 Data Center Income/Expense	(\$32,999)	(\$15,522)	\$0	Table E-2B + Table E-2C, Ln 229
230	Total Intercompany Income/(Expense)	(\$8,837,905)	(\$1,182,052)	\$1,233,273	Sum Lns 223 to 229
231	Total Other Income/(Expense)	(\$9,130,514)	(\$842,615)	\$1,238,350	Ln 222 + Ln 230
232	Net Interest Income (Expense)	(\$7,896)	\$34,546	\$321	Table E-2B + Table E-2C, Ln 232
233	Pre-tax income	\$21,862,295	\$46,438,680	\$90,257,660	Ln 221 + Ln 231 + Ln 232

Table E-2B
AIM-DE
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
201	41400 Customer Service Adjustments	(\$50,610)	(\$13,532)	NA	IDR 64
202	41201 Customer Refunds Payment Services	(\$2,126,905)	(\$612,818)	NA	IDR 64
203	42510 Auction-Listing Revenue	\$2,503	\$863	NA	IDR 64
204	42520 Auction-Commission Revenue	\$14,068	\$4,596	NA	IDR 64
205	42530 Payment Services - Auctions	\$939	\$279	NA	IDR 64
206	42531 Payment Services - zShops	\$12,810	\$4,226	NA	IDR 64
207	42562 zShops-Merchandising Revenue	\$6,275	\$0	NA	IDR 64
208	42570 Merchant Insertion Revenue	\$3,277,511	\$1,091,192	NA	IDR 64
209	42573 Merchant Commission Revenue	\$21,801,489	\$8,056,060	NA	IDR 64
210	42574 Merchant Subscription Revenue	\$1,504,142	\$595,357	NA	IDR 64
211	42575 Closing Fee Revenue	\$11,888,905	\$4,349,960	NA	IDR 64
212	42580 MP Giftwrap Commission Revenue	NA	NA	NA	IDR 64
213	45122 Seller Credits	(\$30,156)	\$17,660	NA	IDR 64
214	42620 Other Service Revenue	NA	NA	NA	IDR 64
215	Total Net Revenue	\$36,300,971	\$13,493,843	NA	Sum Lns 201 to 214
216	Total Cost Of Sales	NA	NA	NA	IDR 64
217	Total Gross Profit	\$36,300,971	\$13,493,843	NA	Ln 215 - Ln 216
<i>Operating Expenses</i>					
218	Total Employee Expenses	NA	NA	NA	IDR 64
219	Total Administrative Expenses	\$4,225,393	\$1,394,408	NA	IDR 64
220	Total Operating Expenses	\$4,225,393	\$1,394,408	NA	Ln 218 + Ln 219
221	Consolidated Segment Operating Income	\$32,075,578	\$12,099,435	NA	Ln 217 - Ln 220
222	82450 Miscellaneous Gains/(Losses)	(\$291,300)	(\$3,874)	NA	IDR 64
<i>Intercompany Income/(Expense)</i>					
223	82405 Management Fee Expense	(\$3,136,572)	(\$759,350)	NA	IDR 64
224	82407 Royalty Expense	(\$3,628,826)	(\$1,420,641)	NA	IDR 64
225	82412 Intercompany Commission Income	\$127,895	\$144,870	NA	IDR 64
226	82413 Intercompany Commission Expense	(\$2,143,292)	(\$809,602)	NA	IDR 64
227	82415 Service Fee Income	\$234	\$141	NA	IDR 64
228	82416 Service Fee Expense	(\$1,135,357)	\$982,608	NA	IDR 64
229	82417 Data Center Income/Expense	(\$32,999)	(\$15,522)	NA	IDR 64
230	Total Intercompany Income/(Expense)	(\$9,949,117)	(\$1,877,696)	NA	Sum Lns 223 to 229
231	Total Other Income/(Expense)	(\$10,240,417)	(\$1,881,570)	NA	Ln 222 + Ln 230
232	Net Interest Income (Expense)	(\$11,929)	\$0	NA	IDR 64
233	Pre-tax Income	\$21,823,232	\$10,217,865	NA	Ln 221 + Ln 231 + Ln 232

Note: Date for Company=50 (Amazon Int'l Marketplace - DE)

Table E-2C
ASE-DE
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
201	41400 Customer Service Adjustments	\$0	(\$45,574)	(\$77,112)	IDR 64
202	41201 Customer Refunds Payment Services	\$0	(\$2,036,425)	(\$4,687,942)	IDR 64
203	42510 Auction-Listing Revenue	\$0	\$1,706	\$2,682	IDR 64
204	42520 Auction-Commission Revenue	\$0	\$4,142	\$4,298	IDR 64
205	42530 Payment Services - Auctions	\$0	\$249	\$538	IDR 64
206	42531 Payment Services - zShops	\$0	\$3,762	\$2,565	IDR 64
207	42562 zShops-Merchandising Revenue	NA	NA	NA	IDR 64
208	42570 Merchant Insertion Revenue	\$0	\$2,309,977	\$4,098,768	IDR 64
209	42573 Merchant Commission Revenue	\$0	\$23,618,830	\$62,775,347	IDR 64
210	42574 Merchant Subscription Revenue	\$0	\$1,384,261	\$3,225,668	IDR 64
211	42575 Closing Fee Revenue	\$0	\$11,089,994	\$24,659,478	IDR 64
212	42580 MP Giftwrap Commission Revenue	\$0	\$19	\$417	IDR 64
213	45122 Seller Credits	\$5,562	\$76,275	(\$158,679)	IDR 64
214	42620 Other Service Revenue	\$0	\$1,840,310	\$8,702,760	IDR 64
215	Total Net Revenue	\$5,562	\$38,247,526	\$98,548,788	Sum Lns 201 to 214
216	Total Cost Of Sales	\$0	\$0	(\$450)	IDR 64
217	Total Gross Profit	\$5,562	\$38,247,526	\$98,549,238	Ln 215 - Ln 216
<i>Operating Expenses</i>					
218	Total Employee Expenses	\$1,285	\$0	\$0	IDR 64
219	Total Administrative Expenses	\$1,079,150	\$3,100,212	\$9,530,249	IDR 64
220	Total Operating Expenses	\$1,080,435	\$3,100,212	\$9,530,249	Ln 218 + Ln 219
221	Consolidated Segment Operating Income	(\$1,074,873)	\$35,147,314	\$89,018,989	Ln 217 - Ln 220
222	82450 Miscellaneous Gains/(Losses)	(\$1,309)	\$343,311	\$5,077	IDR 64
<i>Intercompany Income/(Expense)</i>					
223	82405 Management Fee Expense	NA	NA	NA	IDR 64
224	82407 Royalty Expense	NA	NA	NA	IDR 64
225	82412 Intercompany Commission Income	\$0	\$394,877	\$1,232,547	IDR 64
226	82413 Intercompany Commission Expense	NA	NA	NA	IDR 64
227	82415 Service Fee Income	\$1,111,212	\$300,767	\$726	IDR 64
228	82416 Service Fee Expense	NA	NA	NA	IDR 64
229	82417 Data Center Income/Expense	NA	NA	NA	IDR 64
230	Total	\$1,111,212	\$695,644	\$1,233,273	Sum Lns 223 to 229
231	Total Other Income/(Expense)	\$1,109,903	\$1,038,955	\$1,238,350	Ln 222 + Ln 230
232	Net Interest Income (Expense)	\$4,033	\$34,548	\$321	IDR 64
233	Pre-tax income	\$39,063	\$36,220,815	\$90,257,660	Ln 221 + Ln 231 + Ln 232

Note: Data for Company=4D (Amazon Services Europe DE)

Table E-3
Merchants @ In FR Market
Commission Rates
2005-2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total 2005-2007</u>	<u>Source</u>
Top Three Merchants					
<i>Sales through Amazon</i>					
301	€ 5,083,070	€ 6,129,383	€ 6,500,424	€ 17,712,857	IDR-66
302	€ 1,143,885	€ 1,560,443	NA	€ 2,704,328	IDR-66
303	€ 1,050,534	€ 1,713,248	€ 3,171,446	€ 5,935,228	IDR-66
304	NA	NA	€ 1,979,426	€ 1,979,426	IDR-66
305	€ 7,277,489	€ 9,403,054	€ 11,651,296	€ 28,331,839	Sum Lns 301 to 304
306	0.8049	0.7965	0.7305		Bloomberg
307	9,041,482	11,805,466	15,949,755	36,798,704	Ln 305 / Ln 306
<i>Commissions/fees paid to Amazon</i>					
308	€ 638,449	€ 772,634	€ 814,049	€ 2,225,132	IDR-66
309	€ 148,472	€ 203,017	NA	€ 351,489	IDR-66
310	€ 113,974	€ 193,971	€ 343,027	€ 650,972	IDR-66
311	NA	NA	€ 254,338	€ 254,338	IDR-66
312	€ 900,895	€ 1,169,622	€ 1,411,414	€ 3,481,931	Sum Lns 308 to 311
313	0.8049	0.7965	0.7305		Ln 306
314	\$1,119,263	\$1,468,452	\$1,932,120	\$4,519,836	Ln 312 / Ln 313
<i>Commissions/fee rates</i>					
315	12.6%	12.6%	12.5%	12.6%	Ln 308 / Ln 301
316	13.0%	13.0%	NA	13.0%	Ln 309 / Ln 302
317	10.8%	11.3%	10.8%	11.0%	Ln 310 / Ln 303
318	NA	NA	12.8%	12.8%	Ln 311 / Ln 304
319	12.4%	12.4%	12.1%	12.3%	Ln 312 / Ln 305
Consolidated Company Estimates					
320	\$2,974,307	\$4,574,618	\$7,251,618		Table E-3A, Ln 304
321	\$0	\$0	\$0		Table E-3A, Ln 315
322	\$2,974,307	\$4,574,618	\$7,251,618	\$14,800,543	Ln 320 + Ln 321
323	\$24,026,647	\$36,777,164	\$59,862,484	\$120,666,295	Ln 322 / Ln 319
324	\$2,026,752	\$4,234,097	\$8,298,543	\$14,559,392	Table E-3A, Ln 324
325	8.4%	11.5%	13.9%	12.1%	Ln 324 / Ln 323
<i>Services markup adjustment</i>					
<i>Services Expenses</i>					
326	\$1,130,166	\$1,928,998	\$2,261,409		Table E-3A, Ln 310
327	(\$1,179,642)	(\$512,399)	\$0		Table E-3A, Ln 321
328	\$2,309,808	\$2,441,397	\$2,261,409		Ln 326 - Ln 327
329	5.0%	5.0%	5.0%		Assumption
330	\$115,490	\$122,070	\$113,070		Ln 328 x Ln 329
331	\$1,911,262	\$4,112,027	\$8,185,473	\$14,208,761	Ln 324 - Ln 330
332	8.0%	11.2%	13.7%	11.8%	Ln 331 / Ln 323
<i>IDCs adjustment</i>					
333	2.9%	2.3%	1.9%	2.3%	Table 1, ln 114
334	5.0%	8.8%	11.7%	9.5%	Ln 325 - Ln 333

Table E-3A
Merchants @ in FR Market
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
301	41400 Customer Service Adjustments	(\$16,433)	(\$26,713)	(\$33,924)	Table E-3B + Table E-3C, Ln 301
302	41201 Customer Refunds Payment Services	(\$336,232)	(\$445,110)	(\$583,242)	Table E-3B + Table E-3C, Ln 302
303	42570 Merchant Insertion Revenue	\$239,857	\$356,121	\$602,825	Table E-3B + Table E-3C, Ln 303
304	42573 Merchant Commission Revenue	\$2,974,307	\$4,574,618	\$7,251,618	Table E-3B + Table E-3C, Ln 304
305	42574 Merchant Subscription Revenue	\$271,895	\$424,895	\$636,827	Table E-3B + Table E-3C, Ln 305
306	42575 Closing Fee Revenue	\$1,207,505	\$1,760,692	\$2,701,471	Table E-3B + Table E-3C, Ln 306
307	42580 MP Giftwrap Commission Revenue	\$0	\$0	\$49	Table E-3B + Table E-3C, Ln 307
308	45122 Seller Credits	(\$3,223)	\$5,200	(\$16,119)	Table E-3B + Table E-3C, Ln 308
309	Total Net Revenue	\$4,337,676	\$6,649,703	\$10,559,505	Sum Lns 301 to 308
310	Total Administrative Expenses	\$1,130,166	\$1,928,998	\$2,261,409	Table E-3B + Table E-3C, Ln 310
311	Consolidated Segment Operating Income	\$3,207,510	\$4,720,705	\$8,298,096	Ln 309 - Ln 310
312	82450 Miscellaneous Gains/(Losses)	(\$4,704)	\$7,149	\$447	Table E-3B + Table E-3C, Ln 312
<i>Intercompany Income/(Expense)</i>					
313	82405 Management Fee Expense	(\$355,482)	(\$111,874)	\$0	Table E-3B + Table E-3C, Ln 313
314	82407 Royalty Expense	(\$434,826)	(\$205,494)	\$0	Table E-3B + Table E-3C, Ln 314
315	82412 Intercompany Commission Income	\$0	\$0	\$0	Table E-3B + Table E-3C, Ln 315
316	82413 Intercompany Commission Expense	(\$261,198)	(\$117,422)	\$0	Table E-3B + Table E-3C, Ln 316
317	82416 Service Fee Expense	(\$873,944)	(\$265,858)	\$0	Table E-3B + Table E-3C, Ln 317
318	82415 Service Fee Income	\$873,512	\$265,858	\$0	Table E-3B + Table E-3C, Ln 318
319	82418 Customer Service Income/Expense	\$3,292	\$0	\$0	Table E-3B + Table E-3C, Ln 319
320	82417 Data Center Income/Expense	(\$130,996)	(\$77,609)	\$0	Table E-3B + Table E-3C, Ln 320
321	Total Intercompany Income/(Expense)	(\$1,179,642)	(\$512,399)	\$0	Sum Lns 313 to 320
322	Total Other Income/(Expense)	(\$1,184,346)	(\$505,250)	\$447	Ln 312 + Ln 321
323	Net Interest Income (Expense)	\$3,588	\$18,642	\$0	Table E-3B + Table E-3C, Ln 323
324	Pre-tax income	\$2,026,752	\$4,234,097	\$8,298,543	Ln 311 + Ln 322 + Ln 323

Note: Data for Company=54 (Amazon Int'l Marketplace - FR)

Table E-3B
AIM-FR
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
<i>Revenues</i>					
301	41400 Customer Service Adjustments	(\$16,433)	(\$6,551)	NA	IDR 64
302	41201 Customer Refunds Payment Services	(\$336,232)	(\$126,508)	NA	IDR 64
303	42570 Merchant Insertion Revenue	\$239,857	\$104,783	NA	IDR 64
304	42573 Merchant Commission Revenue	\$2,974,307	\$1,344,281	NA	IDR 64
305	42574 Merchant Subscription Revenue	\$271,895	\$122,954	NA	IDR 64
306	42575 Closing Fee Revenue	\$1,207,505	\$520,545	NA	IDR 64
307	42580 MP Giftwrap Commission Revenue	NA	NA	NA	IDR 64
308	45122 Seller Credits	(\$4,135)	(\$2,450)	NA	IDR 64
309	Total Net Revenue	\$4,336,764	\$1,957,054	NA	Sum Lns 301 to 308
310	Total Administrative Expenses	\$292,132	\$100,891	NA	IDR 64
311	Consolidated Segment Operating Income	\$4,044,632	\$1,856,163	NA	Ln 309 - Ln 310
312	82450 Miscellaneous Gains/(Losses)	(\$7,786)	(\$2,419)	NA	IDR 64
<i>Intercompany Income/(Expense)</i>					
313	82405 Management Fee Expense	(\$355,482)	(\$111,874)	NA	IDR 64
314	82407 Royalty Expense	(\$434,826)	(\$205,494)	NA	IDR 64
315	82412 Intercompany Commission Income	NA	NA	NA	IDR 64
316	82413 Intercompany Commission Expense	(\$261,198)	(\$117,422)	NA	IDR 64
317	82416 Service Fee Expense	(\$873,944)	(\$265,858)	NA	IDR 64
318	82415 Service Fee Income	NA	NA	NA	IDR 64
319	82418 Customer Service Income/Expense	NA	NA	NA	IDR 64
320	82417 Data Center Income/Expense	(\$130,996)	(\$77,609)	NA	IDR 64
321	Total Intercompany Income/(Expense)	(\$2,056,446)	(\$778,257)	NA	Sum Lns 313 to 320
322	Total Other Income/(Expense)	(\$2,064,232)	(\$780,676)	NA	Ln 312 + Ln 321
323	Net Interest Income (Expense)	NA	NA	NA	IDR 64
324	Pre-tax income	\$1,980,400	\$1,075,487	NA	Ln 311 + Ln 322 + Ln 323

Note: Data for Company=54 (Amazon Int'l Marketplace - FR)

Table E-3C
ASE-FR
Income Statement Summary
2005 to 2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>	
<i>Revenues</i>					
301	41400 Customer Service Adjustments	\$0	(\$20,162)	(\$33,924)	IDR 64
302	41201 Customer Refunds Payment Services	\$0	(\$318,602)	(\$583,242)	IDR 64
303	42570 Merchant Insertion Revenue	\$0	\$251,338	\$602,825	IDR 64
304	42573 Merchant Commission Revenue	\$0	\$3,230,337	\$7,251,618	IDR 64
305	42574 Merchant Subscription Revenue	\$0	\$301,941	\$636,827	IDR 64
306	42575 Closing Fee Revenue	\$0	\$1,240,147	\$2,701,471	IDR 64
307	42580 MP Giftwrap Commission Revenue			\$49	IDR 64
308	45122 Seller Credits	\$912	\$7,650	(\$16,119)	IDR 64
309	Total Net Revenue	\$912	\$4,692,649	\$10,559,505	Sum Lns 301 to 308
310	Total Administrative Expenses	\$838,034	\$1,828,107	\$2,261,409	IDR 64
311	Consolidated Segment Operating Income	(\$837,122)	\$2,864,542	\$8,298,096	Ln 309 - Ln 310
312	82450 Miscellaneous Gains/(Losses)	\$3,082	\$9,568	\$447	IDR 64
<i>Intercompany Income/(Expense)</i>					
313	82405 Management Fee Expense	NA	NA	NA	IDR 64
314	82407 Royalty Expense	NA	NA	NA	IDR 64
315	82412 Intercompany Commission Income	NA	NA	NA	IDR 64
316	82413 Intercompany Commission Expense	NA	NA	NA	IDR 64
317	82416 Service Fee Expense	NA	NA	NA	IDR 64
318	82415 Service Fee Income	\$873,512	\$265,858	\$0	IDR 64
319	82418 Customer Service Income/Expense	\$3,292	\$0	\$0	IDR 64
320	82417 Data Center Income/Expense	NA	NA	NA	IDR 64
321	Total	\$876,804	\$265,858	\$0	Sum Lns 318 to 319
322	Total Other Income/(Expense)	\$879,886	\$275,426	\$447	Ln 312 + Ln 321
323	Net Interest Income (Expense)	\$3,588	\$18,642	\$0	IDR 64
324	Pre-tax income	\$46,352	\$3,158,610	\$8,298,543	Ln 311 + Ln 323 + Ln 322

Note: Data for Company=4F (Amazon Services Europe FR)

**Table E-4
 Merchants @ Luxembourg Functions
 Commission Rates
 2005-2007**

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total 2005-2007</u>	<u>Source</u>	
<i>Consolidated Company Estimates</i>						
401	Pre-tax income	\$255,755	(\$1,810,775)	(\$702,410)	(\$2,257,430)	Table E-4A, Ln 425
<i>Services markup adjustment</i>						
<i>Services Expenses</i>						
402	Total Operating Expenses	\$1,491,602	\$3,330,959	\$3,330,121		Table E-4A, Ln 406
403	82416 Service Fee Expense	(\$1,365,661)	(\$2,252,706)	\$0		Table E-4A, Ln 417
404	Total Services Expenses	\$2,857,263	\$5,583,665	\$3,330,121		Ln 402 - Ln 403
405	Markup percentage	5.0%	5.0%	5.0%		Assumption
406	Services Markup	\$142,863	\$279,183	\$166,506		Ln 404 x Ln 405
407	Pre-tax income less services markup	\$112,892	(\$2,089,958)	(\$868,916)	(\$2,845,982)	Ln 401 - Ln 406

Table E-4A
Merchants @ Luxembourg Functions
Income Statement Summary
2005 to 2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
401 42620 Other Service Revenue	\$7,871	\$10,201	\$0	Table E-4B + Table E-4C, Ln 401
<i>Operating Expenses</i>				
402 Total Employee Expenses	\$1,119,097	\$2,360,227	\$2,600,232	Table E-4B + Table E-4C, Ln 402
403 Total Selling Expenses	\$542	\$815	\$0	Table E-4B + Table E-4C, Ln 403
404 Total Administrative Expenses	\$869,465	\$1,171,674	\$729,889	Table E-4B + Table E-4C, Ln 404
405 Total Intercompany Direct Expense	(\$497,502)	(\$201,757)	\$0	Table E-4B + Table E-4C, Ln 405
406 Total Operating Expenses	\$1,491,602	\$3,330,959	\$3,330,121	Sum Lns 402 to 405
407 Consolidated Segment Operating Income	(\$861,594)	(\$1,161,473)	(\$729,889)	Ln 401 - Ln 406
<i>Other Income/(Expense)</i>				
408 82450 Miscellaneous Gains/(Losses)	\$0	\$0	\$197	Table E-4B + Table E-4C, Ln 408
409 83100 Foreign Currency Gain	\$56,836	\$2,212	\$17,378	Table E-4B + Table E-4C, Ln 409
410 83150 Foreign Currency Loss	(\$683)	(\$3,201)	(\$3,455)	Table E-4B + Table E-4C, Ln 410
411 85100 Current Income Tax Expense	(\$870,092)	(\$4,415,450)	(\$869,936)	Table E-4B + Table E-4C, Ln 411
412 85101 Deferred Income Tax Expense	(\$3,598)	\$0	(\$7,208,602)	Table E-4B + Table E-4C, Ln 412
413 Total	(\$817,537)	(\$4,416,439)	(\$8,064,418)	Sum Lns 410 to 412
<i>Intercompany Income/(Expense)</i>				
414 82407 Royalty Expense	(\$820)	(\$102,081,548)	(\$176,297,051)	Table E-4B + Table E-4C, Ln 414
415 82408 Interco (additional) Service Fee Revenue	\$14,925	\$6,053	\$0	Table E-4B + Table E-4C, Ln 415
416 82415 Service Fee Income	\$1,398,062	\$969,780	\$0	Table E-4B + Table E-4C, Ln 416
417 82416 Service Fee Expense	(\$1,365,661)	(\$2,252,706)	\$0	Table E-4B + Table E-4C, Ln 417
418 Total Intercompany Income/(Expense)	\$46,506	(\$103,358,421)	(\$176,297,051)	Sum Lns 414 to 417
419 Total Other Income/(Expense)	(\$771,031)	(\$107,774,860)	(\$184,361,469)	Ln 413 + Ln 418
420 Net Interest Income (Expense)	\$1,013,870	\$628,560	\$13,359	Table E-4B + Table E-4C, Ln 420
421 Pro Forma Net Income	(\$618,755)	(\$108,307,773)	(\$185,077,999)	Ln 407 + Ln 419 + Ln 420
<i>Less:</i>				
422 85100 Current Income Tax Expense	(\$870,092)	(\$4,415,450)	(\$869,936)	Ln 411
423 85101 Deferred Income Tax Expense	(\$3,598)	\$0	(\$7,208,602)	Ln 412
424 82407 Royalty Expense	(\$820)	(\$102,081,548)	(\$176,297,051)	Ln 414
425 Pre-Tax Income	\$255,755	(\$1,810,775)	(\$702,410)	Ln 421 - Sum (Ln 422 to 424)

Table E-4B
AIM-LU
Income Statement Summary
2005 to 2007

<u>Line</u>		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
401	42620 Other Service Revenue	\$7,871	\$10,201	NA	IDR 64
	<i>Operating Expenses</i>				
402	Total Employee Expenses	NA	NA	NA	IDR 64
403	Total Selling Expenses	NA	NA	NA	IDR 64
404	Total Administrative Expenses	\$1,212	\$48	NA	IDR 64
405	Total Intercompany Direct Expense	NA	NA	NA	IDR 64
406	Total Operating Expenses	\$1,212	\$48	NA	Sum Lns 402 to 405
407	Consolidated Segment Operating Income	\$6,659	\$10,153	NA	Ln 401 - Ln 406
	<i>Other Income/(Expense)</i>				
408	82450 Miscellaneous Gains/(Losses)	NA	NA	NA	IDR 64
409	83100 Foreign Currency Gain	NA	NA	NA	IDR 64
410	83150 Foreign Currency Loss	NA	NA	NA	IDR 64
411	85100 Current Income Tax Expense	NA	NA	NA	IDR 64
412	85101 Deferred Income Tax Expense	NA	NA	NA	IDR 64
413	Total	NA	NA	NA	Sum Lns 410 to 412
	<i>Intercompany Income/(Expense)</i>				
414	82407 Royalty Expense	(\$820)	\$0	NA	IDR 64
415	82408 Interco (additional) Service Fee Revenue	NA	NA	NA	IDR 64
416	82415 Service Fee Income	NA	NA	NA	IDR 64
417	82416 Service Fee Expense	(\$1,365,661)	(\$2,252,706)	NA	IDR 64
418	Total Intercompany Income/(Expense)	(\$1,366,481)	(\$2,252,706)	NA	Sum Lns 414 to 417
419	Total Other Income/(Expense)	(\$1,366,481)	(\$2,252,706)	NA	Ln 413 + Ln 418
420	Net Interest Income (Expense)	\$720,982	\$290,570	NA	IDR 64
421	Pro Forma Net Income	(\$638,840)	(\$1,951,983)	NA	Ln 407 + Ln 419 + Ln 420
	<i>Less:</i>				
422	85100 Current Income Tax Expense	NA	NA	NA	Ln 411
423	85101 Deferred Income Tax Expense	NA	NA	NA	Ln 412
424	82407 Royalty Expense	(\$820)	\$0	NA	Ln 414
425	Pre-Tax Income	(\$638,020)	(\$1,951,983)	NA	Ln 421 - Sum (Ln 422 to 424)

Note: Data for Company=4M (AIM Luxembourg)

Table E-4C
ASE-LU
Income Statement Summary
2005 to 2007

<u>Line</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Source</u>
401 42620 Other Service Revenue	NA	NA	NA	IDR 64
<i>Operating Expenses</i>				
402 Total Employee Expenses	\$1,119,097	\$2,360,227	\$2,600,232	IDR 64
403 Total Selling Expenses	\$542	\$815	\$0	IDR 64
404 Total Administrative Expenses	\$868,253	\$1,171,626	\$729,889	IDR 64
405 Total Intercompany Direct Expense	(\$497,502)	(\$201,757)	\$0	IDR 64
406 Total Operating Expenses	\$1,490,390	\$3,330,911	\$3,330,121	Sum Lns 402 to 405
407 Consolidated Segment Operating Income	(\$1,490,390)	(\$3,330,911)	(\$3,330,121)	Ln 401 - Ln 406
<i>Other Income/(Expense)</i>				
408 82450 Miscellaneous Gains/(Losses)	\$0	\$0	\$197	IDR 64
409 83100 Foreign Currency Gain	\$56,836	\$2,212	\$17,378	IDR 64
410 83150 Foreign Currency Loss	(\$683)	(\$3,201)	(\$3,455)	IDR 64
411 85100 Current Income Tax Expense	(\$870,092)	(\$4,415,450)	(\$869,936)	IDR 64
412 85101 Deferred Income Tax Expense	(\$3,598)	\$0	(\$7,208,602)	IDR 64
413 Total	(\$817,537)	(\$4,416,439)	(\$8,064,418)	Sum Lns 410 to 412
<i>Intercompany Income/(Expense)</i>				
414 82407 Royalty Expense	\$0	(\$102,081,548)	(\$176,297,051)	IDR 64
415 82408 Interco (additional) Service Fee Revenue	\$14,925	\$6,053	NA	IDR 64
416 82415 Service Fee Income	\$1,398,062	\$969,780	\$0	IDR 64
417 82416 Service Fee Expense	NA	NA	NA	IDR 64
418 Total	\$1,412,987	(\$101,105,715)	(\$176,297,051)	Sum Lns 414 to 417
419 Total Other Income/(Expense)	\$595,450	(\$105,522,154)	(\$184,361,469)	Ln 413 + Ln 418
420 Net Interest Income (Expense)	\$292,888	\$337,990	\$13,359	IDR 64
421 Pro Forma Net Income	(\$602,052)	(\$108,515,075)	(\$187,678,231)	Ln 407 + Ln 419 + Ln 420
<i>Less:</i>				
422 85100 Current Income Tax Expense	(\$870,092)	(\$4,415,450)	(\$869,936)	Ln 411
423 85101 Deferred Income Tax Expense	(\$3,598)	\$0	(\$7,208,602)	Ln 412
424 82407 Royalty Expense	\$0	(\$102,081,548)	(\$176,297,051)	Ln 414
425 Pre-Tax Income	\$271,638	(\$2,018,077)	(\$3,302,642)	Ln 421 - Sum (Ln 422 to 424)

Note: Data for Company=4L (Amazon Services Europe LU)