Daiwa Securities

Amazon.com

$36bn of cash needs in FY19

- FY18 revenues up 31% y/y due to increased unit sales, Whole Foods acquisition and increased customer usage of AWS
- EBITDA up 78%, EBITDA margins up 3.2 points due to a favorable product mix change and slower growth of operating expenses
- Strong market position in growing markets, improving profitability, excellent liquidity are credit positive; global increased scrutiny by regulators, aggressive competition are main risk factors

Global Credit Research GCRE016

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Credit Opinion

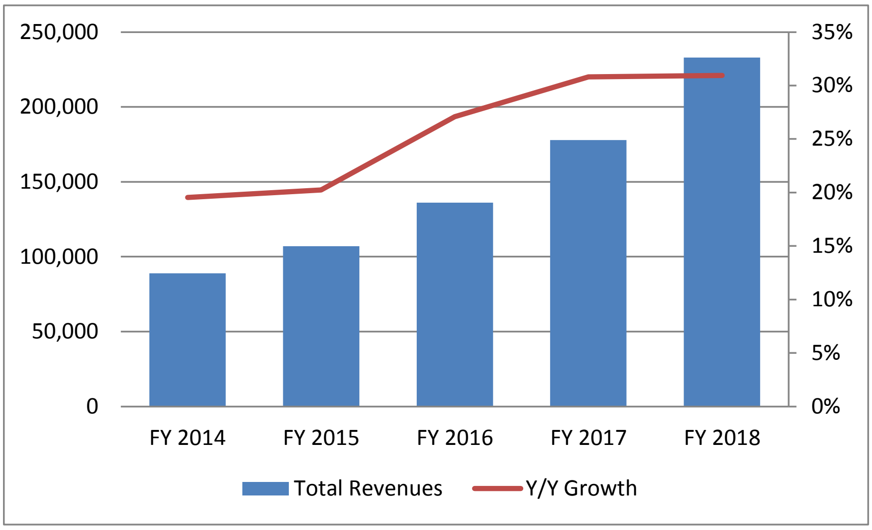
Amazon has a strong credit profile supported by a strong market position in markets with high growth potential, improving profitability, excellent liquidity.
In FY18, total revenues increased 31% y/y to $233bn including a positive FX impact of $1.3bn. North America revenues grew 33% mainly due to increased unit sales, including third-party sellers, and the impact of the acquisition of Whole Foods Market. International sales increased 21% to $66bn mainly due to increased unit sales, including third-party sellers. AWS sales increased 47% to $26bn mainly due to increased customer usage, partially offset by pricing changes. In Q4 FY18 unearned revenues grew 28% y/y and assets acquired under capital leases growth accelerated to 33% y/y. We expect further revenue growth in the following years as both net shopping and cloud markets offer high growth potential and Amazon has a strong market position with a globally recognized brand image. We also expect FY19 revenue growth rates to slow down as FY18 revenues had a positive impact from Whole Foods acquisition (August 2017, acquired for approximately $13.2bn, net of cash acquired).

FY18 EBITDA increased 78% to $28bn. EBITDA margins improved 3.2 points to 11.9% mainly due to growth of high-margin segments (AWS,advertising), slower growth of both head count costs and spendings on technology infrastructure. We expect Amazon to maintain an adequate profitability level despite growing investments necessary to maintain its leader market position.

We estimate approximately $36bn of cash needs in FY19. Amazon has $9bn of debt, capital and finance leases obligations due in 2019. We estimate approximately $27bn of adjusted CapEx as Amazon should continue its aggressive investments to support both retail and cloud growth. We expect cash sources to be enough to cover its liquidity needs. Amazon has $41bn of cash and marketables as of end of December, 2018 and we expect approximately $45bn of CFO in FY19. We also evaluate as credit positive the negative working capital cycle of Amazon's e-commerce platform as Amazon generally collects from consumers before payments to suppliers come due. Amazon has also a $7bn commercial paper program that could provide liquidity to make up for swings in working capital.

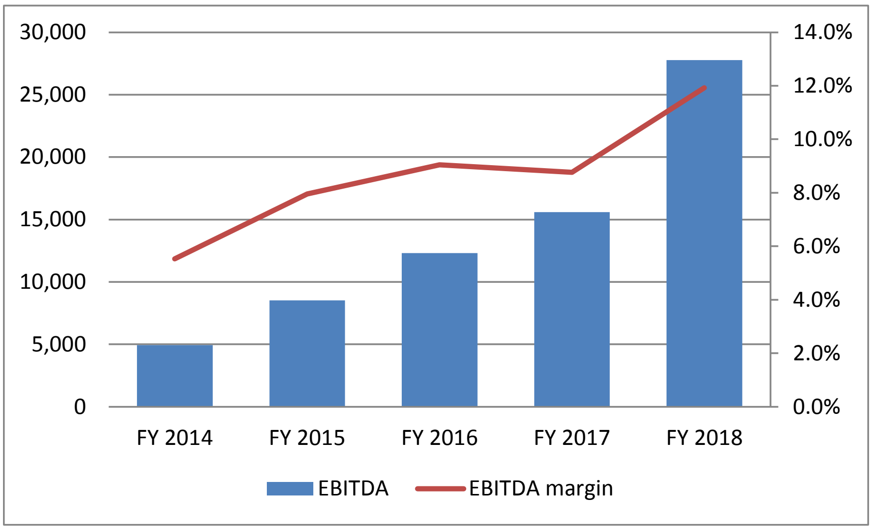
The main threats to Amazon business model are a high competition environment both in retail and cloud businesses and intensifying regulators scrutiny worldwide regarding data protection and market dominance of platform businesses. We view as positive the expansion of Amazon deliveries and Amazon Logistics as it could reduce dependence on transportation firms, it gives Amazon more bargaining power and it is cost effective.

Chart 1: Annual growth rates of total revenues boosted by impact of Whole Foods acquisition



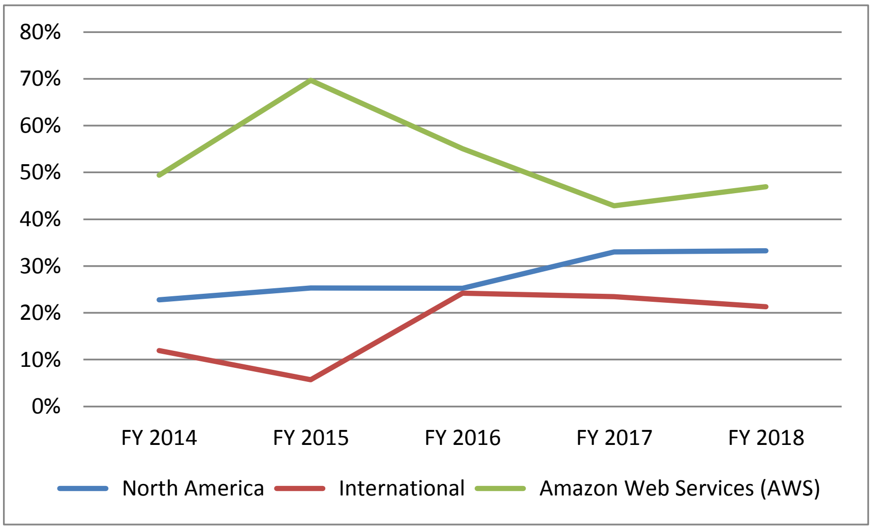
Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 2: EBITDA and EBITDA margins



Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 3: Revenues growth rates by business segments



Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 4: Cash needs vs cash sources, Daiwa estimates for FY19

Estimates for FY19, $m			
Cash Needs		**Cash Sources**	
Debt obligations	1,371	Cash and marketables	41,000
Capital Lease obligations	7,700	CFO	45,000
Finance lease obligations	411		
Adjusted CapEx	27,000		
Total	**36,482**	**Total**	**86,000**

Source: Company materials, Bloomberg, Daiwa.estimates

Highlights of Q4 FY18 Results

Amazon announced Q4 FY18 (October-December quarter) results on January 31st .
Total Revenues increased 20% y/y to $72.4bn with double-digits growth in all product groups except Physical Stores.
Unearned revenues increased 28% y/y to $6.5bn.

Physical Stores revenues decreased 3% y/y to $4.4bn.
There are 2 reasons behind the revenues decline in Physical Stores. The first one is adjustment of fiscal calendar for Whole Foods (Whole Foods was acquired in Q3 FY17) that resulted in addition of about 5 days of revenue in Q4 FY17. The second reason is a reallocation in segments between online and physical stores. People make online orders through Prime Now App and then order for delivery or pickup at Whole Foods and these orders are counted in online stores revenues. If we eliminate the impact form these 2 factors, growth in Whole Foods revenues was approximately 6% y/y.

Online Stores revenues increased 13% y/y to $39.8bn benefitting from synergies with Whole Foods store.

Subscription Services revenue increased 25% y/y to $4bn mainly due to its strong content offerings and synergies from the acquisition of Whole Foods Market.
Prime members that signed up in the quarter reached an all-time record.
Subscription Services revenues include an unfavorable impact of ▲$300m due to accounting changes. If we exclude this one-time item, Subscription Services revenues increased 34% y/y to $4.3bn.

Other segment which includes advertising services increased 95% y/y to $3.4bn.
Revenues include a one-time revenue of about $1bn as certain advertising services were classified as revenues instead of a reduction of cost sales. If we exclude the one-time revenue, Other segment increased 38% y/y.

EBITDA increased 43.1% y/y to $8bn mainly due to strong growth of high-margin segments (advertising, AWS) and lower growth of hiring, fulfillment center capacity.
In 2018, Amazon improved its profitability by leveraging its large investments in people, warehouses, infrastructure put in place in previous years. Square footage for the fulfillment center and shipping areas increased about 15% in FY18 vs growth of over 30% in FY16 and FY17. Head count costs increased 14% in FY18 vs head count growth of 48% in FY16 and 38% in FY17.
EBITDA margins increased 1.8 points y/y to 11.1%.
On q/q basis, EBITDA margins decreased 2.1 points due to higher Amazon- fulfilled units, greater use of Amazon Logistics and increased free shipping in the holiday season.

Adjusted free operating cash flow (= CFO- CapEx- assets acquired under capital leases) increased 48% y/y to $9.7bn.
Cash flow from operating activities increased 34% y/y to $16.5bn due to increased revenue and improving margins across all the business segments.
Adjusted CapEx (CapEx+assets acquired under capital leases) increased 17% y/y to ▲ $6.8bn primarily due to investment in fulfillment network and technology infrastructure to support AWS growth. Capital leases which show mostly the expenses for data centers increased 33% y/y. The investment growth rates are slowing down as Amazon benefits from heavy investments done in previous years (capital leases increased 69% in FY17).

Adjusted net debt decreased 43% q/q to $8bn as cash growth rate surpassed the growth rate of adjusted debt.
Cash & marketables increased 39% q/q to $41.3bn. Adjusted debt increased 12.3% q/q to $49.3bn.
In April 2018, Amazon established a commercial paper program of $7bn with a term of three years, but it can be extended for up to three additional one-year terms if approved by the lenders. There were no borrowings outstanding under the Credit Agreement as of December 31, 2018.
Amazon has also a credit facility of $620m available for three years from October 2016. There were $594m borrowings outstanding under the Credit Facility as of December 31, 2018.

Segment Information

North America

North America sales increased 18% y/y to $44.1bn mainly due to increased unit sales, including third-party sellers and synergies from Whole Foods Market acquisition (August 2017). North America sales account for 61% share in total revenues.
Operating Income increased 33% to $2.3bn primarily due to increased unit sales, including sales by third-party sellers, advertising sales and slower growth of fulfillment costs, partially offset by increased marketing costs. Operating margins improved 0.6 points y/y to 5.1%.

International

International sales were up 15% y/y (19% y/y FX adjusted) to $20.8bn mainly due to timing of Diwali. Diwali took place primarily in Q4 in 2018 while it was split between Q3 and Q4 in 2017. If we adjust for Diwali impact, international growth is about 15% y/y FX adjusted. International sales account for 29% share in total revenues.
Operating Loss decreased from ▲$919m (FY17 Q4) to ▲$642m primarily due to increased unit sales, including sales by third-party sellers, advertising sales and slower growth of certain operating expenses, partially offset by costs to expand the fulfillment network.

AWS

AWS revenues increased 45% y/y to $7.4bn mainly due to increased customer usage, partially offset by pricing changes. AWS revenues account for 10% share in total revenues.
AWS operating income increased 61% to $2.2bn primarily due to increased customer usage and cost structure productivity, partially offset by pricing changes and increased spending on technology infrastructure, payrolls to support the business growth.
AWS operating margins improved 2.8 points y/y to 29.3%.

Company Guidance for Q1 FY19

Net sales are expected to be between $56bn and $60bn, growing between 10%- 18% y/y. This guidance includes an unfavorable FX impact of approximately 210bps. Operating income is expected to be between $2.3bn- $3.3bn, vs. $1.9bn in Q1 FY18.

Chart 5: Financial results

($m) Period End	Q4 2017 12/31/2017	Q1 2018 03/31/2018	Q2 2018 06/30/2018	Q3 2018 09/30/2018	Q4 2018 12/31/2018	Y/Y	Q/Q	FY 2017 12/31/2017	FY 2018 12/31/2018	Y/Y
■P/L										
Revenues	60,453	51,042	52,886	56,576	72,383	19.7%	27.9%	177,866	232,887	30.9%
Gross Profit	21,959	20,307	22,254	23,573	27,597	25.7%	17.1%	65,932	93,731	42.2%
Gross margin	*36.3%*	*39.8%*	*42.1%*	*41.7%*	*38.1%*	*1.8*	*▲ 3.5*	*37.1%*	*40.2%*	*3.2*
Operating Income	2,127	1,927	2,983	3,724	3,786	78.0%	1.7%	4,106	12,421	202.5%
Net Interest expense	273	250	249	241	237	-13.2%	-1.7%	646	977	51.2%
Pretax Income	1,872	1,916	2,605	3,390	3,350	79.0%	-1.2%	3,806	11,261	195.9%
Net Income	1,856	1,629	2,534	2,883	3,027	63.1%	5.0%	3,033	10,073	232.1%
EBITDA	5,625	5,598	6,613	7,502	8,048	43.1%	7.3%	15,584	27,762	78.1%
EBITDA margin	*9.3%*	*11.0%*	*12.5%*	*13.3%*	*11.1%*	*1.8*	*▲ 2.1*	*8.8%*	*11.9%*	*3.2*
■C/F										
Cash from operations (1)	12,344	▲1,791	7,449	8,588	16,478	33.5%	91.9%	18,434	30,723	66.7%
Depreciation & Amortization	3,498	3,671	3,630	3,778	4,262	21.8%	12.8%	11,478	15,341	33.7%
Cash from investing	▲2,032	▲533	▲2,692	▲5,572	▲3,572	75.8%	-35.9%	▲27,819	▲12,369	-55.5%
CapEx (2)	▲3,036	▲2,727	▲2,949	▲2,527	▲3,119	2.7%	23.4%	▲10,058	▲11,323	12.6%
Cash from financing	▲2,647	▲2,164	▲1,394	▲2,369	▲1,760	-33.5%	-25.7%	9,860	▲7,686	---
Net cash flow	7,665	▲4,488	3,363	647	11,146	45.4%	1622.7%	475	10,668	2145.9%
FCF	10,312	▲2,324	4,757	3,016	12,906	25.2%	327.9%	▲9,385	18,354	---
Assets acquired under Capital Leases (3)	▲2,770	▲2,270	▲2,335	▲2,329	▲3,681	32.9%	58.1%	▲9,637	▲10,615	10.1%
Adjusted CapEx (2)+(3)	▲5,806	▲4,997	▲5,284	▲4,856	▲6,800	17.1%	40.0%	▲19,695	▲21,938	11.4%
Adjusted FOCF (1)-(2)-(3)	6,538	▲6,788	2,165	3,732	9,678	48.0%	159.3%	▲1,261	8,785	---
■B/S										
Assets	131,310	126,362	134,100	143,695	162,648	23.9%	13.2%	131,310	162,648	23.9%
Current assets	60,197	50,829	54,481	59,885	75,101	24.8%	25.4%	60,197	75,101	24.8%
Cash&Marketables (4)	30,986	24,963	27,050	29,765	41,250	33.1%	38.6%	30,986	41,250	33.1%
Liabilities	103,601	94,899	99,105	104,570	119,099	15.0%	13.9%	103,601	119,099	15.0%
Current liabilities	57,883	48,045	50,801	55,324	68,391	18.2%	23.6%	57,883	68,391	18.2%
Equity	27,709	31,463	34,995	39,125	43,549	57.2%	11.3%	27,709	43,549	57.2%
Borrowings (5)	24,843	24,693	24,669	24,728	24,866	0.1%	0.6%	24,843	24,866	0.1%
Capital Leases (6)	19,304	19,794	21,120	19,182	24,423	26.5%	27.3%	19,304	24,423	26.5%
Adjusted Debt (5)+(6)	44,147	44,487	45,789	43,910	49,289	11.6%	12.3%	44,147	49,289	11.6%
Adjusted Net Debt (5)+(6)-(4)	13,161	19,524	18,739	14,145	8,039	-38.9%	-43.2%	13,161	8,039	-38.9%
■Financial Ratios										
Equity Ratio	21.1%	24.9%	26.1%	27.2%	26.8%	5.7	▲ 0.5	21.1%	26.8%	5.7
Adjusted NetD/E	0.47	0.62	0.54	0.36	0.18	▲ 0.3	▲ 0.2	0.47	0.18	▲ 0.3
Adjusted NetD/EBITDA	0.84	1.10	0.89	0.56	0.29	▲ 0.6	▲ 0.3	0.84	0.29	▲ 0.6
ROA	2.5%	3.1%	4.8%	6.4%	6.6%	4.1	0.2	2.8%	6.9%	4.0
ROE	11.6%	13.3%	18.9%	24.0%	24.4%	12.8	0.3	12.9%	28.3%	15.4

Source: Company materials, Bloomberg; compiled by Daiwa.
(*)Adjusted net debt = total debt- cash- marketables
FCF (free cash flow) = CFO (cash flow from operating activities)- CFI (cash flow from investing activities)
Adjusted FOCF (free operating cash flow) = CFO (cash flow from operating activities)- CapEx (Capital Expenditure)- Assets acquired under capital leases
We are using last twelve months net income for ROA and ROE calculations.

Chart 6: Business Segments- Revenues breakdown

($m) 3 Months Ending	Q4 2017 12/31/2017	Q1 2018 03/31/2018	Q2 2018 06/30/2018	Q3 2018 09/30/2018	Q4 2018 12/31/2018	Y/Y	Q/Q	FY 2017 12/31/2017	FY 2018 12/31/2018	Y/Y
Revenue	**60,453**	**51,042**	**52,886**	**56,576**	**72,383**	20%	28%	**177,866**	**232,887**	31%
Retail	55,340	45,600	46,781	49,897	64,953	17%	30%	160,407	207,232	29%
North America	37,302	30,725	32,169	34,348	44,124	18%	28%	106,110	141,366	33%
International	18,038	14,875	14,612	15,549	20,829	15%	34%	54,297	65,866	21%
Amazon Web Services (AWS)	5,113	5,442	6,105	6,679	7,430	45%	11%	17,459	25,655	47%
Operating Income	**2,127**	**1,927**	**2,983**	**3,724**	**3,786**	78%	2%	**4,106**	**12,421**	203%
Retail	**773**	**527**	**1,341**	**1,647**	**1,609**	108%	-2%	**-225**	**5,125**	---
North America	1,692	1,149	1,835	2,032	2,251	33%	11%	2,837	7,267	156%
International	-919	-622	-494	-385	-642	---	---	-3,062	-2,142	---
Amazon Web Services (AWS)	1,354	1,400	1,642	2,077	2,177	61%	5%	4,331	7,296	68%
Operating Margin	**3.5%**	**3.8%**	**5.6%**	**6.6%**	**5.2%**	1.7	▲ 1.4	**2.3%**	**5.3%**	3.0
Retail	1.4%	1.2%	2.9%	3.3%	2.5%	1.1	▲ 0.8	1.0%	2.5%	1.5
North America	4.5%	3.7%	5.7%	5.9%	5.1%	0.6	▲ 0.8	2.7%	5.1%	2.5
International	-5.1%	-4.2%	-3.4%	-2.5%	-3.1%	2.0	▲ 0.6	-5.6%	-3.3%	2.4
Amazon Web Services	26.5%	25.7%	26.9%	31.1%	29.3%	2.8	▲ 1.8	24.8%	28.4%	3.6

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 7: Business Segments- Share in revenues

3 Months Ending	Q4 2017 12/31/2017	Q1 2018 03/31/2018	Q2 2018 06/30/2018	Q3 2018 09/30/2018	Q4 2018 12/31/2018	FY 2017 12/31/2017	FY 2018 12/31/2018
Revenue	**60,453**	**51,042**	**52,886**	**56,576**	**72,383**	**177,866**	**232,887**
Retail	92%	89%	88%	88%	90%	90%	89%
North America	62%	60%	61%	61%	61%	60%	61%
International	30%	29%	28%	27%	29%	31%	28%
Amazon Web Services (AWS)	8%	11%	12%	12%	10%	10%	11%
Operating Income	**2,127**	**1,927**	**2,983**	**3,724**	**3,786**	**4,106**	**12,421**
Retail	36%	27%	45%	44%	42%	-5%	41%
Amazon Web Services (AWS)	64%	73%	55%	56%	58%	105%	59%

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 8: Business Segments- y/y growth

3 Months Ending	Q4 2017 12/31/2017	Q1 2018 03/31/2018	Q2 2018 06/30/2018	Q3 2018 09/30/2018	Q4 2018 12/31/2018	FY 2017 12/31/2017	FY 2018 12/31/2018
Revenue	**38%**	**43%**	**39%**	**29%**	**20%**	**31%**	**31%**
Retail	38%	42%	38%	27%	17%	**30%**	**29%**
North America	42%	46%	44%	35%	18%	**33%**	**33%**
International	29%	34%	27%	13%	15%	**23%**	**21%**
Amazon Web Services (AWS)	45%	49%	49%	46%	45%	**43%**	**47%**
Operating Income	**69%**	**92%**	**375%**	**973%**	**78%**	**-2%**	**203%**
Retail	**135%**	**358%**	**---**	**---**	**108%**	**---**	**---**
North America	107%	93%	321%	1714%	33%	**20%**	**156%**
International	---	---	---	---	---	**---**	**---**
Amazon Web Services (AWS)	46%	57%	79%	77%	61%	**39%**	**68%**

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 9: Product Groups- Revenues breakdown

($m) 3 Months Ending	Q4 2017 12/31/2017	Q1 2018 03/31/2018	Q2 2018 06/30/2018	Q3 2018 09/30/2018	Q4 2018 12/31/2018	Y/Y	Q/Q	FY 2017 12/31/2017	FY 2018 12/31/2018	Y/Y Change
Revenue	**60,453.0**	**51,042.0**	**52,886.0**	**56,576.0**	**72,383.0**	20%	28%	**177,866.0**	**232,887.0**	31%
Online Stores	35,383.0	26,939.0	27,165.0	29,061.0	39,822.0	13%	37%	108,354.0	122,987.0	14%
Third-Party Seller Services	10,523.0	9,265.0	9,702.0	10,395.0	13,383.0	27%	29%	31,881.0	42,745.0	34%
Amazon Web Services (AWS)	5,113.0	5,442.0	6,105.0	6,679.0	7,430.0	45%	11%	17,459.0	25,655.0	47%
Physical Stores	4,522.0	4,263.0	4,312.0	4,248.0	4,401.0	-3%	4%	9,721.0	17,224.0	77%
Subscription Services	3,177.0	3,102.0	3,408.0	3,698.0	3,959.0	25%	7%	5,798.0	14,168.0	144%
Other	1,735.0	2,031.0	2,194.0	2,495.0	3,388.0	95%	36%	4,653.0	10,108.0	117%

Source: Company materials, Bloomberg; compiled by Daiwa.

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1) Duty of good faith.
2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
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■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (http://www.standardandpoors.co.jp/unregistered) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")
The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moodys.com/pages/default_ja.aspx)

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Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of April 16th, 2018, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. (https://www.moodys.com/pages/default_ja.aspx)

[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")
The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (https://www.fitchratings.co.jp/web/)

Assumptions, Significance and Limitations of Credit Ratings

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of May 13th, 2016, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (https://www.fitchratings.co.jp/web/)

May 2018

IMPORTANT

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

• In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
• For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
• There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
• There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
• Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator
Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association
The Financial Futures Association of Japan
Japan Investment Advisers Association
Type II Financial Instruments Firms Association