

U.S. INTERNET

Internet Trends & Picks for the Year Ahead

On the heels of a strong 2H10 for the group, we remain bullish on Internet stocks in 2011 driven by continued secular trends in online advertising and eCommerce, and emerging growth opportunities across mobile, social, and local. Our top stock picks for 2011 are Yahoo!, Google, Priceline, and Amazon—all rated 1-Overweight. Key trends we are focused on for the year ahead:

1) Branded dollars should drive online advertising and we are raising our 2011 online ad growth estimate to 15%;

2) The second wave of tablets should create incremental Internet activity given their high degree of portability and the constant 3G connections on many devices;

3) Mobile commerce becoming more material with smartphone penetration at 28% of handsets in the U.S., 19% globally, and growing ~90% Y/Y;

4) Mobile payments emerging on the heels of smartphones and near-field communications technology;

5) Private sales and group buying going mainstream driven by the combination of mobile, social, and local trends;

6) Disruption in the online travel space given airline and GDS disputes, Google's pending acquisition of ITA, and changes to Google's search display;

7) Potential changes in access charges given the recent net neutrality proposals and increasing bandwidth demands related to video and richer applications;

8) Appification moving beyond mobile handsets and tablets to computers and TVs;

9) Major, strategic investments to continue for larger Internets; and

10) Continued M&A given strong balance sheets & rapidly changing landscape.

Yahoo!: Our best Internet risk/reward – bull case on display, RPS growth, margin expansion, Asian assets, and valuation at 6.4x 2011E EBITDA, 5.1x 2012E EBITDA.

Google: Mid-teens core search growth with upside from fast growing display and mobile; valuation reasonable at 18x 2011E PF EPS and 16x 2012E PF EPS.

Priceline: Continued share gains, mix-shift toward International, margin expansion.

Amazon: Best long-term growth story in the Internet space; key 2011 drivers include EGM, International, digital media, and secular trends.

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 24.

INDUSTRY UPDATE

U.S. Internet

1-POSITIVE

Unchanged

U.S. Internet

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Key Internet Trends in 2011

1. Branded Dollars to Drive Online Advertising & Online Video

We believe momentum in online advertising will continue into 2011 as marketers allocate more dollars online given the growth in users, transactions, and time spent. **We now project Internet advertising to grow 15% in 2011 to \$29.8 billion, up from our previous 13% growth projection.** During the past year, Internet advertising became the second largest domestic advertising category—surpassing newspapers—behind only TV which the Barclays Capital U.S. Media team projects will be a \$60 billion industry in 2011. **Both time spent online and eCommerce penetration will increase, and we expect video and mobile to be more material drivers over the next few years, resulting in double-digit annual growth through 2015.**

We expect digital video, banner, and search ad formats to outperform as the macro picture strengthens, consumer spending rebounds, and larger marketers increasingly shift spend online. **One of the bigger themes that began in 2010—and is likely to continue into 2011 and beyond—is the increasing allocation of brand ad budgets online.** Marketers are increasingly looking for audience and we believe the scale, measurability, and targetability of Internet ads deliver a blend of performance and brand building for advertisers. Recently AOL's CEO Tim Armstrong called brand advertising one of the few large 'whitespaces' on the Internet. We agree and also view Google's focus on display advertising as further proof of the accelerating shift of brand budgets online. For example, we point out that according to AdAge, top-10 marketers such as Procter & Gamble, Pfizer, Johnson & Johnson, and Kraft all spent less than 4% of their measured media dollars online in 2009.

We are seeing this shift in brand take place in digital video and banner ads, search, and in social. We now project online video to grow 45% next year to \$2.1 billion, banner ads to grow 15% to \$6.7 billion, and search to grow 16% to \$14.4 billion. **And through 2015, we now believe display advertising, led by the continued investment in brand ads, will grow faster than search each year.** Importantly, we also believe that as the Internet evolves, marketers are becoming more comfortable with engaging in emerging ad formats such as mobile and social, both of which we view to be largely incremental to current online advertising budgets. **Of the two, we believe social is likely to take the larger share of incremental spend in 2011 given its large user base and higher conversion rates relative to mobile.** We believe Facebook is best positioned to capture the growth in social and take a greater share of online advertising given its size—600+ million monthly global users—scale, and targetability as campaigns are a blend of performance and brand advertising. **But given conversions on social campaigns tend to take longer and are spread across multiple channels, we do not believe search budgets are at risk.**

Within our coverage universe, we believe Yahoo!, Google, and AOL are best positioned to benefit from the ongoing secular shift to advertising online.

Figure 1: Barclays Capital U.S. Online Advertising Forecast (\$ in millions), 2005 – 2015E

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Display Advertising											
Banner Ads	\$2,734	\$3,677	\$4,517	\$4,901	\$5,076	\$5,863	\$6,713	\$7,552	\$8,307	\$9,013	\$9,644
Y/Y growth		34%	23%	8%	4%	16%	15%	13%	10%	9%	7%
Rich Media	\$903	\$1,013	\$1,675	\$1,618	\$1,541	\$1,633	\$1,748	\$1,861	\$1,973	\$2,082	\$2,186
Y/Y growth		12%	65%	-3%	-5%	6%	7%	6%	6%	5%	5%
Digital Video	\$50	\$127	\$324	\$734	\$997	\$1,446	\$2,096	\$2,935	\$3,962	\$5,151	\$6,438
Y/Y growth		152%	156%	126%	36%	45%	45%	40%	35%	30%	25%
Sponsorship	\$577	\$557	\$636	\$387	\$383	\$440	\$498	\$552	\$597	\$638	\$677
Y/Y growth		-3%	14%	-39%	-1%	15%	13%	11%	8%	7%	6%
Total Display Advertising	\$4,264	\$5,373	\$7,153	\$7,639	\$7,997	\$9,382	\$11,055	\$12,901	\$14,839	\$16,884	\$18,945
Y/Y growth		14%	26%	33%	7%	5%	17%	17%	15%	14%	12%
% of total		34%	32%	34%	33%	35%	36%	37%	38%	39%	40%
% of total growth		17%	26%	41%	22%	-45%	43%	45%	46%	48%	49%
Search	\$5,142	\$6,799	\$8,810	\$10,528	\$10,651	\$12,408	\$14,393	\$16,480	\$18,623	\$20,671	\$22,738
Y/Y growth		34%	32%	20%	1%	17%	16%	15%	13%	11%	10%
% of total		41%	40%	42%	45%	47%	48%	49%	49%	49%	49%
% of total growth		44%	38%	46%	77%	-16%	51%	50%	50%	48%	49%
Classifieds / Auctions	\$2,132	\$3,059	\$3,271	\$3,187	\$2,262	\$2,465	\$2,662	\$2,822	\$2,963	\$3,082	\$3,174
Y/Y growth		23%	43%	7%	-3%	-29%	9%	8%	6%	5%	4%
% of total		17%	18%	15%	14%	10%	10%	9%	8%	8%	7%
% of total growth		14%	21%	5%	-4%	118%	6%	4%	3%	3%	2%
Lead Generation/E-mail	\$1,004	\$1,648	\$1,972	\$2,093	\$1,752	\$1,591	\$1,655	\$1,702	\$1,733	\$1,751	\$1,768
Y/Y growth		247%	64%	20%	6%	-16%	-9%	4%	3%	2%	1%
% of total		8%	10%	9%	9%	8%	6%	5%	5%	4%	4%
% of total growth		25%	15%	7%	5%	43%	-5%	2%	1%	1%	0%
Total Online Advertising	\$12,542	\$16,879	\$21,206	\$23,448	\$22,661	\$25,847	\$29,765	\$33,905	\$38,158	\$42,388	\$46,626
% Y/Y growth		30.3%	34.6%	25.6%	10.6%	-3.4%	14.1%	15.2%	13.9%	12.5%	11.1%
Total U.S. Advertising	\$196,661	\$205,055	\$206,125	\$194,721	\$163,593	\$172,686	\$179,410	\$190,123	\$194,152	\$204,786	\$209,154
% Y/Y growth		4.2%	4.3%	0.5%	-5.5%	-16.0%	5.6%	3.9%	6.0%	2.1%	5.5%
Online as a % of Total	6.4%	8.2%	10.3%	12.0%	13.9%	15.0%	16.6%	17.8%	19.7%	20.7%	22.3%

Note: Total U.S. Advertising figures are from the Barclays Capital U.S. Media & Internet research team
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), and Barclays Capital estimates.

2. Second Wave of Tablets

Apple's iPad, with an estimated 13.5 million devices sold in 2010, cracked open the tablet category last year. In 2011, we expect to see the second version of the iPad along with possibly hundreds of competitors. **We believe tablets are highly attractive to consumers as they offer portability approaching a mobile phone combined with functionality approaching a notebook.** And Apple's robust apps store has been critical in continuing to improve the features and capabilities of the iPad. The rise of tablets has many implications for search, online advertising, eCommerce, travel, eBooks, and more as content providers and services deliver their products effectively across multiple channels.

Tablets have already eaten into notebooks and PCs, accounting for 8% of the notebook market in 3Q10 and 5% of the total PC market in 3Q10. **But similar to our thinking around mobile phones, we believe tablets create incremental Internet activity given their high degree of portability and the constant 3G connections on many devices.** Over time we believe they could become even more of a notebook replacement when tablets are better supported by corporate networks and as prices come down.

Tablets and mobile phones are playing a major role in accelerating some of the other trends we discuss in this note including mobile commerce, mobile payments, private sales and group buying, and of course the proliferation of applications. **Importantly, while a year ago there was much concern the iPad would materially impact sales of Amazon's Kindle, despite taking some share it has helped accelerate the market for eReaders and has broadened the reach of the Kindle bookstore.** Tablet sales will likely far outpace eReader

sales in 2011 but the breadth of content, pricing, and accessibility of the Kindle store make it compelling across a wide range of devices, in our view. And we continue to believe that a market exists for a dedicated eReader that is cheaper, lighter, and easier to read outdoors. My Kindle comes to the beach with me, my iPad does not.

Barclays Capital IT Hardware Analyst Ben Reitzes estimates there were 15.5 million tablet PCs sold worldwide in 2010, and projects that number will grow 145% to 38 million in 2011 (Figure 2). While Apple's iPad represents the bulk of the tablets in the market today, we are approaching a wave of new tablet PC launches from the likes of BlackBerry, Motorola, Intel, Sony, Acer, Toshiba, and many others in 2011. While no single device has gained much traction from the iPad, the Samsung Galaxy tablet sold 1 million units in less than two months from launch (as of December 3rd) and estimated it would sell 1.5 million by year end. At CES, Motorola's Xoom, which is slated for a March release, stood out due to its Android 3.0 (Honeycomb) OS which is optimized for tablets and features a new user interface, front- and rear-facing cameras, HD recording, a dual core processor, and a 10.1 inch screen. Xoom's software benefits include Gmail optimization, YouTube redesign delivering a more streamlined UI, 3D Google Maps, and video chat supported via Google Talk.

Figure 2: Barclays Capital Worldwide PC Unit Sales Forecast, Including Tablets

	2009	2010E	2011E	2012E	2013E	2014E
Apple iPad Forecast	-	13,521	22,550	30,472	38,090	45,708
Other Tablets	-	1,979	15,450	26,528	33,160	39,792
Total Tablet Forecast	-	15,500	38,000	57,000	71,250	85,500
y/y change	-	-	145%	50%	25%	20%
Notebooks INCLUDING Tablets	168,305	216,194	270,468	321,742	368,385	416,256
y/y change	17.7%	28.5%	25.1%	19.0%	14.5%	13.0%
<i>Tablet % of Notebook Market</i>		7.2%	14.0%	17.7%	19.3%	20.5%
Total PCs INCLUDING Tablets	295,400	355,211	407,627	455,129	496,089	537,897
y/y change	2.6%	20.2%	14.8%	11.7%	9.0%	8.4%
<i>Tablet % of PC Market</i>		4.4%	9.3%	12.5%	14.4%	15.9%

Source: Barclays Capital IT Hardware Analyst Ben Reitzes Estimates

3. Commerce Going Mobile...and Keeps Moving

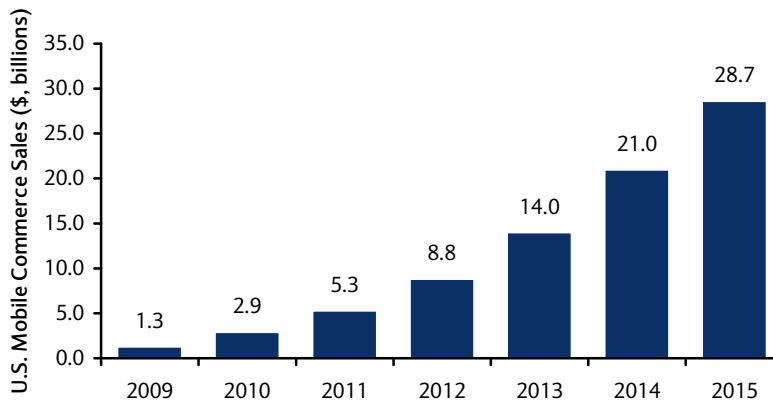
While an emerging theme over the past few years, mobile commerce's potential has become more tangible with the rapid adoption of smartphones (now 28% of handsets in the U.S. and 19% globally) and the proliferation of tablet PCs. Internet companies are rapidly enabling versions of their websites and applications specifically catered to smartphones and tablets to capitalize on increased mobile engagement by the consumer. While still a small portion of eCommerce and a tiny portion of overall retail, mobile commerce growth rates are strong. In conjunction with projections from ABI Research and Coda Research Consultancy, **we expect mobile commerce in the US (ex-travel) will reach \$5.3 billion in 2011 (Figure 3), up 83% from an estimated \$2.9 billion in 2010 (which was in turn up 123% from 2009). We expect mobile commerce will grow to \$28.7 billion in 2015, a 58% 5-year CAGR.** In addition, mobile commerce goes beyond just selling goods and services as it is also being used as a tool to better integrate multi-channel platforms and help retailers better connect with their customers. As an example, ABI research estimates \$1.5 billion was spent in 2010 on travel from mobile phones. In fact, at the PhoCusWright Travel Conference in November, **Expedia, Orbitz, and Travelocity all agreed that mobile devices would account for a double-digit percentage of bookings within 12-24 months,**

and mobile was becoming material for short-window bookings. Furthermore, mobile commerce penetration among smartphone users is already significant as a **SapientNitro Holiday Shopping Behavior survey in December 2010 suggested 21% of respondents purchased products or services on their smartphones during the holidays.**

Internet companies in our coverage universe have provided some mobile data to date, and while figures are still limited, they represent encouraging growth and opportunity. eBay noted on its Q310 earnings call that its main iPhone app has been downloaded 13 million times since its launch in July 2008. **eBay also announced at CES that it generated \$2 billion in mobile GMV in 2010, more than 3x the \$600 million in mobile GMV in 2009.** Google disclosed on its 3Q10 earnings call that revenues from mobile advertising were on a \$1 billion run rate, higher than we anticipated. While that figure refers to ad revenue and not commerce, search revenues have typically followed the path of eCommerce penetration in geographic markets and we think a similar dynamic will evolve in handsets. Mobile CPCs are much lower than desktop CPCs, but it is still early in the mobile advertising trajectory. Leading eCommerce companies offer compelling mobile applications that make shopping easier, such as comparison apps. In June 2010, eBay bought Red Laser, an application which scans product barcodes and produces a list of prices for that product across a spectrum of retailers. Amazon also launched its “Price Check” app for the iPhone that provides customers with an easy way to compare in-store prices with prices on Amazon by scanning an item’s barcode, taking a picture, or saying/typing the product name.

We expect mobile commerce to continue to experience robust growth in 2011 as consumers increasingly turn to smartphones and tablets and Internet companies dedicate more resources towards this opportunity. Nielsen reported smartphone penetration of 28% in Q310 in the US, up from 21% in Q409, and we believe penetration rates will continue to rise steadily and be a key driver of mobile commerce growth going forward. Consumers will likely also become increasingly comfortable with purchases of bigger-ticket items as they grow more accustomed to the mobile shopping experience, while Internet companies continue to develop mobile shopping and checkout interfaces that are more sophisticated and user friendly. **We also think the proliferation of private sales and group buying will drive mobile commerce as users of these sites likely have a heightened sense of urgency that may accelerate immediate sales, as opposed to waiting to get to a home or work PC.**

Figure 3: US Mobile Commerce Sales Forecast (\$, Billions)



Source: ABI Research, Coda Research Consultancy, Barclays Capital Estimates

4. Phone May Soon Become as Good as a Credit Card

While still a small piece of the total payment landscape, mobile payments for both on and offline goods and services continue to proliferate and have strong prospects for future growth. **Juniper Research believes total worldwide mobile payment transaction volume reached \$170 billion in 2010, and will grow to \$630 billion in 2014 (a CAGR of 39%),** with the physical goods mobile payment market reaching 16% or \$100 billion of total worldwide mobile payments in 2014, driven by technology such as Near Field Communication (NFC). **Of the companies in our coverage universe, we believe eBay is best positioned to capitalize on this opportunity through PayPal and is currently building out its mobile payment infrastructure while aggressively encouraging its developer community to do the same.** Over 2.5 million people downloaded PayPal's mobile app in the first six months of 2010. PayPal generated \$141 million in Mobile payments in 2009 and expects to close 2010 with more than \$700 million in mobile payment volume from 5 million PayPal members worldwide. PayPal also recently built out its Mobile Express Checkout API, a secure two-click checkout method which simplifies the checkout process on mobile phones while helping to minimize aborted sales.

eBay is very optimistic about PayPal's potential in offline payments driven by NFC, and believes that the phone will ultimately replace the wallet as people store all kinds of personal credit, debit, and couponing information there and use their phones as a means to pay for items in the offline world. These contactless payments will be enabled through "bump" technologies that allow for quick and easy payment processing by placing phones adjacent to vendor payment receptacles. The thought is that consumers will enjoy the convenience of storing all of their payment info on their phone as it will allow them to replace multiple cards and could add extra security because a lost phone will not warrant the cancellation of multiple credit/debit cards as payment functionality will be password protected. For merchants, tap and pay could result in lower loss rates.

Piggybacking on this NFC technology we believe there will likely be more targeted promotional and couponing activity from traditional retailers as consumers' phones could automatically receive coupons and promotions from nearby stores. While an exciting and very real opportunity, NFC will require a large infrastructure build-out before it can realize mainstream acceptance, which could take time. However, we note that Android's Gingerbread version supports NFC, that RIMM has also indicated it would likely include NFC in future devices, and we believe the next generation of the iPhone is likely to be NFC-enabled as well.

In 2011, we expect continued growth in mobile payments for online purchases driven by the adoption of mobile commerce on smartphones and tablets, the continued proliferation of apps, and the growing demand for convenience. We also expect to get more visibility into NFC, specifically around its infrastructure and new participants which could compete with PayPal. Beyond enabling NFC in Android, Google may look to enter the space directly and there is also a joint venture between Verizon Wireless, AT&T, and T-Mobile, called Isis, which will offer an NFC-based service in 2012. NFC could have hurdles however, including pushback from banks and traditional credit card operators, reluctance by manufacturers due to the extra \$10-\$15 cost of adding an NFC chip to mobile devices, and challenges winning over some physical merchants.

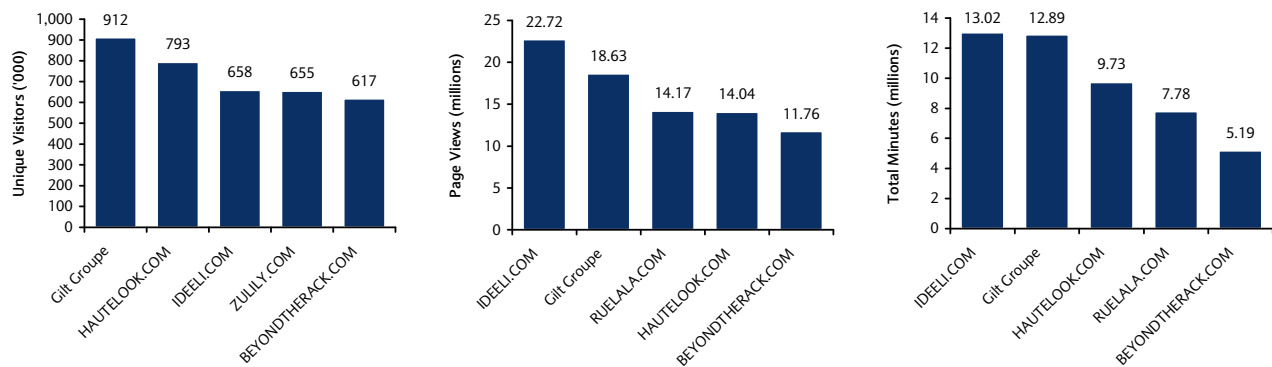
5. Private Sales and Group Buying Going Mainstream

We believe the confluence of a more promotionally focused consumer, excess inventory during the recession, and the emergence of mobile and social shopping has led to

widespread adoption of private sales and group buying. In the early days of eBay consumers felt the thrill of winning product auctions, and we believe there is a similar dynamic in private sales as users shop for mostly discounted merchandise on a limited time basis. Private sale sites like Gilt, Rue La La, HauteLook and others have created a sense of urgency and become incredibly sticky among core shoppers. Similarly, group buying sites Groupon, Living Social, BuyWithMe, and others have also capitalized on increased mobile access and social trends to serve as a critical customer acquisition channel for local and sometimes national businesses. **Email and viral marketing are also critical as many consumers now eagerly anticipate daily emails from Gilt, Groupon, and others, and deal information is widely disseminated across Facebook and Twitter.**

Figures 4 and 5 below detail user metrics across the leaders in private sales and group buying in the U.S. In private sales we believe Gilt Groupe is the domestic leader. Management indicated at the recent Web 2.0 conference that sales were approaching \$500 million in 2010 and that the core Gilt business would be profitable in early 2011, though the company’s focus for now is much more on growth than the bottom-line. Google estimates that the top four private sale sites generated \$900 million in revenue in 2010 and doubled site visits from 2009. We point out that Vente Privee in Europe is likely the largest private sales site overall with more than \$1 billion in sales in 2010.

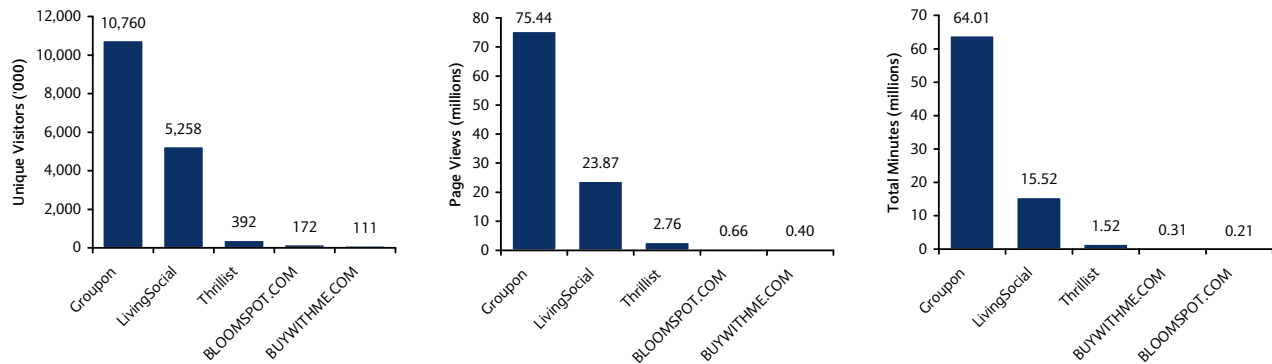
Figure 4: Leading U.S. Private Sales Sites by Unique Visitors, Page Views, and Total Minutes, December 2010



Source: comScore

Google’s reported attempted acquisition of Groupon (November 30, 2010 *The New York Times*, “Google Said to Be Bidding on Groupon”) for \$6 billion significantly increased overall interest in the group buying space. We estimate Groupon could be on track to do well over \$2 billion in sales in 2011 as it currently operates in more than 30 countries and 500 cities around the world. Living Social, in which Amazon recently made a \$175 million investment, is the number two player. As we indicated in our December 1 note “Why Groupon Makes Sense for Google”, barriers to entry in this space may be low, but barriers to success are significantly higher based on scale, early-mover advantage, and ability to build out a large local sales force. Additionally, we believe merchants have generally been pleased with Groupon as more than 95% of merchants would like to run again and initial Groupons have been ROI-positive for more than half of all merchants (all data as of November 2010).

Figure 5: Top 5 U.S. Group Buying Sites by Unique Visitors, Page Views, and Total Minutes, December 2010



Source: comScore

Importantly, we expect private sales and group buying sites to continue to evolve in 2011. **Private sale sites have already begun branching out into travel and local, but we also expect some of them to try to move upstream and become more of a destination or aspirational shopping brand for consumers.** Gilt will likely lead the way here and we believe the site has already had some success in selling regularly priced merchandise. We also look for the private sale sites to deliver a more personalized shopping experience based on individual tastes and previous buying patterns. Similarly, we expect group buying sites also to evolve. **Instead of a single primary deal a day across an entire geographic market, each user might receive a personalized Groupon with the ability also to look at secondary deals.** Additionally, local offers could also soon be pushed to mobile devices based on GPS.

The emergence of private sales and group/local buying represents both a threat and an opportunity for the larger Internet companies, in our view. Amazon has moved deeper into both spaces through its acquisitions of Woot in June 2010 and BuyVIP in October 2010, and it recently invested \$175 million in LivingSocial for a 10% stake. Amazon also regularly features “Today’s Deals” on its site, and we believe the company will continue to expand its stake and capabilities in the space in 2011. eBay has also moved more into flash sales through its build out of Daily Deals and the Fashion Vault which is now featured more prominently on the revamped homepage. eBay recently acquired Milo.com, which we believe could link eBay listings with local inventory at traditional brick and mortar retailers in 2011, and potentially incorporate elements of flash sales or group buying. **And while Google has shown little interest in having a local sales force over the last several years, that may be changing as the company looks to generate new revenue opportunities.** The proposed acquisition of Groupon would have added more than 3,000 employees, many of them local sales people focused on building relationships and trying to get the most compelling deals from merchants. Google may still be looking at opportunities in the group buying/local space, but it appears also to be building out its own local sales force to promote Google’s Boost ads and Tags efforts. Google may also be looking to push existing products to a base of local merchants while simultaneously helping develop components of a social strategy.

6. Changes Afoot Across the Online Travel Landscape

Despite strengthening trends in the leisure travel market, 2011 could be a bumpier year for the OTA industry. Industry fundamentals continue to improve as hotel average daily rates are increasing, occupancy at ~58% in 2010 still has room to go versus historical levels of

~62% since 1987, and airlines are adding capacity back to the system, albeit slowly. But supplier concerns and competition could impact growth and overall investor interest in the space. For example, Expedia and Orbitz do not currently offer American Airlines tickets due to contract disputes and Google is increasingly focused on the travel vertical given its pending acquisition of ITA Software and its rollout of Google Places. **While we believe AA content will ultimately return to Orbitz and Expedia, across the three public OTAs we prefer shares of Priceline given its limited exposure to domestic air, focus on hotels, and exposure to faster growing/lower penetrated international markets.**

We believe the role of GDSs going forward will be tested as airlines begin to renegotiate their long-term GDS contracts this year. **Ultimately, we believe the GDS dispute is inherently about lowering airline distribution costs, although American also suggests it centers on using a more flexible technology giving it the ability to sell a broader range of services.** American is out in front trying to implement its Direct Connect technology with certain travel agents, and if successful would effectively bypass the GDSs. As a result of this approach, American flights no longer appear on Orbitz and Expedia, Travelport is in litigation with American, and Sabre recently informed American that it plans to end its contract in August, a month before the expiration date.

American currently sells ~2/3 of its seats via distributors and is spending nearly \$1 billion per year on distribution costs (see 6 Jan '11 WSJ article, "Dogfight Erupts in Plane Ticket Sales"). **We continue to believe a wholesale shift away from GDSs may be untenable in the near term, but American may be looking to phase in a higher percentage of direct bookings in each of the next several years.** American may also believe that the GDS technology is not flexible enough to sell ancillary services such as preferred seating and early boarding. **Over time we believe direct connects could possibly be neutral to more profitable for the OTAs if the airlines are willing to pass along a reasonable share of the GDS cost savings.** That said, American's revenue and EBITDA contribution across Expedia, Orbitz, and Priceline is relatively small (see Figure 6) and we believe the OTAs can offer alternatives to AA. Our concern, however, is more long-term, focused on whether the OTAs lose more air distribution partners or face compressed economics.

Figure 6: 2011 Revenue & EBITDA Contribution from American Airlines at Expedia, Orbitz, and Priceline

	OWW	EXPE	PCLN
Total Revenue	\$814.4	\$3,899.5	\$3,932.1
Air Revenue	\$292.6	\$428.9	\$259.9
Air as a % of total revenue	35.9%	11.0%	6.6%
AA Revenue estimate	\$40.7	\$46.8	\$18.2
AA as a % of total revenue	5.0%	1.2%	0.5%
AA as a % of Air revs	13.9%	10.9%	7.0%
Total EBITDA	\$163.4	\$1,041.5	\$1,304.3
Total Air EBITDA	\$16.3	\$145.8	\$195.6
Air EBITDA margin	10.0%	14.0%	15.0%
AA EBITDA estimate	\$4.1	\$6.6	\$2.7
AA EBITDA margin	10.0%	14.0%	15.0%
% of total EBITDA from AA	2.5%	0.6%	0.2%

Source: Company reports, Barclays Capital Estimates

With the pending acquisition of ITA Software likely, in our view, to be approved this spring and Google's emphasis on Places, we believe the company is re-focusing on travel, one of its largest verticals. While Google's full intentions around ITA remain somewhat unclear, we do not believe it plans to sell air tickets directly. Rather, we expect Google to offer users a new experience when searching for travel, moving Google further down the conversion funnel by delivering better qualified leads and possibly getting compensated on a CPA basis.

Google began including Places in its search results in mid-October. Places provides users with what Google believes are the most relevant results for specific local and travel related searches. But by doing so, it sometimes pushes down certain natural search results and paid ads in favor of local listings indexed by Google. Recently Expedia's Trip Advisor noted that since Places launched in mid-October, traffic had dropped by more than 10%. We believe Places is an important part of Google's Local and Travel initiatives, and we actually find it very useful. But, it could also pose a major threat to Trip Advisor should Google more prominently display Places or remove third party review sites.

7. Changes in Internet Access Charges

With the average U.S. consumer broadband speed now at 7 megabits-per-second (according to Verizon) and wireless data speeds improving as 4G networks roll out, Internet usage and applications continue to evolve as connectivity speeds increase. Users now require more from their Internet connection whether they are home or connected through their wireless carriers. Over the next few years, U.S. households could see data speeds of ~1 gigabit-per-second, a significant increase from today's speeds. For comparison purposes, South Korea has historically had the fastest average internet connection speeds and it plans to offer speeds of 1Gbps by 2012, likely a few years ahead of the U.S.

But while data speeds are improving, users are consuming more bandwidth and providers—particularly wireless carriers—are implementing usage tiers. Internet video now accounts for ~50% of total Internet traffic and we expect this will continue to increase over the next few years. We note that according to Sandvine, Netflix is responsible for ~20% of Internet traffic during the peak hours of 8:00pm–10:00pm and we estimate Netflix grew its streaming users by 133% in 2010. **As more devices are built 'Internet' ready and consumers adapt to an always-on culture, rich internet applications, Internet video, social networking, and gaming are likely to push bandwidth requirements higher, emboldening providers to move to more usage-based offerings, in our view. And we believe usage vs. tiered plans is likely to be a key theme going forward, particularly as Over-The-Top alternatives increase.**

Recently passed Net Neutrality rules should continue to keep current laws governing the Internet in place. The new rules 1) enable data tiering by both traditional ISPs and wireless carriers; 2) prevent ISPs from favoring traffic from one website over another; 3) allow ISP's to block copyright-infringing content; and 4) require mobile providers to allow competing services (like Skype and Google talk) to operate on their networks. However, Congress is currently debating whether the FCC or the Congress has the authority to regulate the Internet and as such these rules may change. Should regulatory bodies change, we believe these rules could be repealed and replaced with rules allowing ISPs to charge websites and content providers for traffic speeds.

While providers are now able to offer tiered services, we believe this will mostly impact wireless carriers given the growth in demand for mobile Internet services. Both AT&T and Verizon have data-tiering plans, with AT&T charging \$15/month for 250MB of data

consumption and \$25/month for 2GBs of consumption while Verizon charges \$15/month for 150MB & \$30/month for unlimited use. We believe wireless carriers are able to offer tiering plans as consumers are accustomed to paying for each new service offered by wireless carriers. **However, the 10 Jan WSJ article “Verizon Wireless Confident It’s Got Muscle for iPhone” suggests Verizon may launch the iPhone later this week with unlimited data plans.** For home Internet connectivity, while ISPs can charge higher rates based on these new rules, we believe given local competition, usage tiers are not likely to be offered above the current caps in place today. We note Comcast currently caps data usage to 250GB/month, and that less than 1% of users reach this level.

8. Appification of...Everything

2010 saw apps reach the mainstream, on the adoption of smartphones and the increasing popularity of tablets. **But we believe that in 2011 apps will extend beyond these devices to PCs and TVs and provide a deeper integration as all four screens (TV, PC, tablet, and mobile) converge.**

We believe apps often provide a richer experience for consuming content than is typically available through more traditional websites as developer toolkits offer improved capabilities. We believe this richer user experience and extension beyond mobile devices is at the heart of Google’s Chrome strategy given its Chrome web store, and also a core part of Apple’s recent launch of its Mac App Store. Both launches are building off of the platforms built in the Android Marketplace and Apple’s Apps store. For example, the New York Times Chrome App offers a user experience on the PC that is very similar to its iPad app.

It remains relatively early for apps on more traditional screens like the PC, and consumer education is important for adoption to extend beyond phones and tablets. **We expect Amazon and Verizon to launch Android marketplaces this year, possibly providing a cleaner interface and a better lit store, which could help improve overall user adoption.** Increasingly however, we believe users will be looking to replicate their tablet app experiences on their PCs given the richer tools and improved layouts. Amazon’s Kindle App currently delivers seamless integration across devices without interrupting the experience, and we believe this model will serve as a blueprint as Apps go into newer channels.

9. Major, Strategic, Long-term Investments to Continue

We believe that strategic, long-term investments will continue into 2011 for the larger players in our space, particularly Google and Amazon, and to a lesser extent, Expedia. Heavy investment spending was a major theme in 2Q10 and 3Q10 for both Google and Amazon as both companies underinvested in growth during the downturn and were forced to play catch-up. **Additionally, Google and Amazon have significant opportunities in newer business segments and geographies which warrant elevated levels of spending.**

In 2010 we saw Google continue to invest heavily in display, mobile, and local. Data points on display and mobile revenue run-rates generally surprised to the upside in 3Q, at least temporarily easing some investor concerns. However, the company appears poised to continue investing in talent and infrastructure in 2011. The competitive landscape for top engineers has intensified and Google is giving all employees a 10% raise in 2011. **And shifting trends within the Internet space almost require Google to focus on areas where it has been less active in the past, such as social, local, and verticals.** Google continues to emphasize that it is very disciplined with spending, though we project 50 bps of EBITDA margin compression and 30 bps of PF operating margin compression from 2010 to 2011.

Amazon made significant investments in its fulfillment center infrastructure this year as it was forced to play catch-up after only increasing fulfillment and warehouse operations square footage by 2% in 2009 despite growing revenue 28%. The company built 13 new fulfillment centers on an existing base of 39, although we believe only four were in the U.S. While we do not believe 2011 capex will be quite on par with spending in 2010, we think investments will still remain significantly ahead of 2009 levels. Most notably, the company entered Italy late in 2010, marking its eighth market and fourth in Europe. And **we think Amazon will continue to spend aggressively in China given the early stage of eCommerce in that market and the clear benefits of building out a leading logistics platform.** We point out that 4 of Amazon's 13 new fulfillment centers are in China. Additionally, we expect the company to continue to lower and remove free shipping thresholds (as it has in the UK and Japan) and over many years go toward same day and next day delivery as standard. **Finally, we believe Amazon will likely enter the subscription streaming market to compete with Netflix.** Buying digital content rights upfront would be a major investment so we continue to think Amazon is pursuing variable content deals based on usage and subscribers, at least early on. Overall, we expect Amazon's PF operating margins to remain down Y/Y in 1H11 and then to expand in 2H11 on easier comps and growing into infrastructure investments.

Finally, Expedia is increasing its investments in Asia and China in anticipation of **greater and faster penetration of online travel.** Expedia believes that Asia's travel market could be larger than the European and US travel markets over the next 5-10 years. Of the investments, we believe Expedia is investing in its core brand, Trip Advisor, and eLong. **For its core brand,** Expedia is building new points of sale, integrating its technology to the region, and creating a local presence in each county. **For Trip Advisor,** Expedia is focusing on China and integrating recent acquisitions such as DaoDao. Lastly, **Expedia's 65% ownership in eLong** gives it exposure to the Chinese travel market and it recently purchased Kuxun, an air meta-search provider in China. PhoCusWright expects the US, Europe, and Asian travel markets to reach \$236 billion, \$299 billion, and \$212 billion respectively in 2010. As a result of these long-term investments, we are projecting Expedia's EBITA margins to contract by 80 bps Y/Y in 2011, to 24.4%.

10. Strategic M&A to Continue

2010 saw a resurgence in M&A activity in the Internet sector and we believe there were perhaps 3x as many transactions in 2010 as in 2009. The major Internet companies have strong balance sheets and the hyper-competitive landscape is increasingly leading these companies to buy rather than build. We expect these trends to continue in 2011.

For Google we believe interest is most likely in ad technology, social, local, and verticals. We would expect Amazon to be most active around verticals, digital media, private sales, and mobile. The OTAs will also likely to continue to look at geographic expansion, complementary service offerings, and social and mobile applications.

Top Picks for 2011

Yahoo (1-Overweight/1-Positive, \$16.60)

Why We Think It Outperforms in 2011

- **Yahoo is our top pick in the Internet sector for 2011.** We believe the Yahoo! story is quietly strengthening, and we expect solid display growth, stronger-than-expected RPS benefits due to the search transition to Microsoft, and improved profitability as Yahoo! winds down heavy investment spending during 2011 related to advertising and infrastructure platforms. Additionally, we believe Yahoo! has significant value in its Asian assets that will ultimately be recognized, and the company is likely to continue aggressively buying back shares.
- **Yahoo! continues to be a prime beneficiary of brand advertising migrating online.** As brand advertisers continue to shift more ad dollars to the Internet, Yahoo! is well positioned to benefit given its size, scale of inventory, and advertising platforms. We conservatively project Yahoo!'s O&O display advertising to grow 9% in 2011 on tougher comps, but there is room for upside as Yahoo! sells newer inventory like the sign-on page and improves page yield through its new APT ad platform. Despite recent overall page view declines, we continue to believe Yahoo! is a compelling place for advertisers.
- **Revenue-per-Search improvements could be stronger than expected.** With the transition to Bing now complete domestically, Yahoo! expects RPS to grow 5-7% by mid-2011. We believe this improvement could come sooner and be greater than the mid-single digit lift expected. To be clear, we currently expect O&O search net revenue to decline 8.4% in 2011 as Yahoo! shares 12% of search revenue with Microsoft, but with RPS trending better, we acknowledge that our overall 2011 search estimates may be conservative.
- **As investments roll-off, we expect significant margin expansion.** We project EBITDA margins will expand 400 bps in 2011 as Yahoo! benefits from outsourcing search and rolls-off investments in its core technology and ad platforms. Overall, we believe Yahoo! is executing better than it has in recent memory and we expect this focus to continue going forward. We project EBITDA margins to be 39.8% in 2011, up from 35.7% in 2010.
- **Asian assets continue to provide valuation support.** We believe Yahoo!'s ~40% ownership in Alibaba Group and ~35% ownership in Yahoo! Japan provide valuation support for shares. Combined, both stakes conservatively represent ~\$5.55 per Yahoo! share. The timing of the monetization of these assets remains unclear, but in Alibaba Group Yahoo! has a major stake in one of China's leading Internet companies.
- **Buybacks to continue, further supporting shares.** We expect Yahoo! to continue aggressively buying back shares. Yahoo! currently has ~\$2.3 billion left under its \$3 billion authorization announced in June, and YTD through 3Q10 Yahoo! had repurchased 7% of shares outstanding.
- **Our \$21 price target** is based on a combination of ~7.0x our 2011E EBITDA of \$1.76 billion yielding \$17, and our DCF which yields \$23 based on a WACC of 11.5%, a 12x terminal multiple, and 2009-2014E CAGRs of 1.1% for revenue and 5.1% for EBITDA.

What Could Go Wrong

- **RPS growth takes longer than expected to materialize and search share losses continue despite Yahoo!'s innovations in search.** While recent search checks indicate Yahoo! is seeing an improvement in RPS post the transition to Bing, it is still relatively early and more of the uplift may be coming from the long-tail of advertisers who may be new to the combined Yahoo!-Bing platform. Additionally, if Yahoo! can't stabilize overall search share—Yahoo!'s November share was 16.4% compared to 17.5% share in November 2009—despite recent innovations such as Quick Apps and its accordion-style search display box, SEMs may pull back search spending on the combined platform.
- **Facebook attracts the majority of incremental display ad dollars that are shifting online.** While we believe Yahoo! remains a must buy for major advertisers, we believe marketers are increasingly willing to work with Facebook given the size and scale of its user base, and targeting capability.
- **Investment spending remains at elevated levels.** Yahoo! remains a show-me stock and while we are confident that Yahoo!'s new infrastructure and ad platforms are on schedule for completion in 2Q11, new investment priorities could arise and further delay Yahoo!'s margin expansion. Yahoo! is more of a bottom-line margin expansion story than a top-line growth story and we believe Microsoft deal savings and other operational efficiencies have to soon drop down to EBITDA.

What to Watch For

- **Search RPS improvement in 4Q10.** 3Q10 marked the first quarter of Y/Y RPS growth in 8 quarters and given the strength of the Search industry, we would expect this metric to continue increasing going forward.
- **User engagement and page views:** While overall engagement levels are flat/up, Yahoo!'s page views have been declining for the past few quarters. Given the popularity of social networking, users are relying less on email, a major page view generator for Yahoo!. However, we note that email page views are generally monetized at a lower rate and we believe yield improvements and targetability can offset lower page views going forward.
- **Ad Platform Rollout and Subsequent Investment Reduction:** As noted above, we believe it is critical for Yahoo! to launch its new Apt platform in 1H11 which will combine guaranteed and non-guaranteed inventory and enable better data targeting. Recent checks suggest Yahoo! is already testing the platform, which we believe is positive for related costs to soon come out of the system.
- **Plan for Yahoo! Japan and/or Alibaba Group.** Our bull thesis on Yahoo! is based more on core business improvements than Asian asset monetization, though we continue to believe there is significant value in Yahoo! Japan and Alibaba Group that is not recognized by the Street given lack of visibility around monetization.

Google (1-Overweight/1-Positive, \$614.21)

Why We Think It Outperforms in 2011

- **Core search growth to continue to be strong globally.** We believe search spend will remain robust globally in 2011, as paid click volume decelerates only slightly Y/Y, and CPCs grow in the low-single digits. For Google we currently project 18% net revenue growth, 14% paid click growth and cost-per-click (CPCs) growth of 2.5% for this year. While we believe brand ad budgets are migrating online in an accelerating pace, we believe Search advertising continues to be a staple for marketers and we believe advertisers will direct more spend to Google & search in 2011.
- **New monetization initiatives and revenue drivers to drive share outperformance in 2011.** As search continues to be strong, we believe relatively new search innovations like Google Instant, Product Listings Ads, and Places will drive increasing click volume. And we believe Google's Display & Mobile businesses will be key drivers to overall growth as YouTube views continue to grow and Android devices gain further traction.
- **Android devices to proliferate, expanding beyond phones.** Google is now activating over 300,000 Android devices per day and as new Android-based tablets from Samsung, Motorola and multiple other companies launch, this number is almost certain to continue rising.
- **New vertical launches around Travel, Fashion, & new products such as Mobile Payments.** We believe Google is finding a way deeper into the conversion funnel with a focus on key verticals and platforms. The pending acquisition of ITA Software would help Google deliver higher quality leads to travel sites, while Boutiques.com brings a new approach to fashion and e-commerce. We believe Google could launch a mobile payments platform utilizing Google Checkout which we believe could be a material new longer-term trend in mobile.
- **Valuation reasonable.** At 18x 2011E earnings and 16x 2012E earnings, Google shares remain attractive, in our view, relative to mid-teens growth we expect over the next two years. The company also has more than \$100 in cash per share.
- **Our \$675 price target is based on 20x our 2011E PF EPS of \$33.71.**

What Could Go Wrong

- **Margins contract more than expected on increased investment, a ramp in hiring, and Google's across-the-board pay raise.** While Google will likely continue to invest in its resources given the strength in the digital economy, we believe it will do so in a disciplined manner. Google's management team regularly reviews its top initiatives and while the company is focused on preserving its culture, we believe it is doing so with an eye towards costs.
- **Incremental search spend directed more towards Facebook.** Increasingly we believe marketers are expanding their experimental ad budgets as they become more comfortable dedicating ad dollars to social media and mobile sites. And while Facebook is likely to capture most of the social media spending in 2011, we continue to believe search budgets and growth will not be materially impacted given search's high ROI. Additional Facebook threats include the possibility of Facebook building out its own third-party ad network platform and incorporating search more into core Facebook functionality.

- **Tighter regulatory scrutiny in both the US and Europe.** Recently the EU announced that it had launched an antitrust investigation into Google's practices and domestically we note that certain Federal and State regulators are scrutinizing some of Google's acquisitions and in some cases its business practices. The decision around ITA will be closely watched.

What to Watch For

- **Deeper integration of Local and Social tools across search results.** Expect Google to more aggressively implement these services into search results, for the tools to be more open than competing platforms, and likely be across Google's properties and products like YouTube, Gmail, and Places.
- **Google's Chrome strategy & the continued application of the Web:** Chrome is quickly becoming a central hub for Google's web strategy given its integration in Chrome OS, Google TV, and as usage of the Chrome browser grows given its 10% market share. However, we believe that Google will ultimately merge the benefits of Android and Chrome OS.
- **Can Apps be the next billion-dollar business?** With more than 3 million businesses running Google Apps, at \$50 per user per year for license fees, 2011 could be a tipping point for Google's office productivity suite.
- **Reintroduction of Google TV:** Internet to the TV remains a core theme going forward and we expect Google to re-launch Google TV across more suppliers and content providers than is currently available.

Priceline (1-Overweight/1-Positive, \$440.56)

Why We Think It Outperforms in 2011

- **Continued share gains and bookings growth to continue** as Priceline's model is focused on the two most lucrative aspects of online travel—hotels and international. We currently project 45% growth of 2011 international bookings and 34% bookings growth overall. While a deceleration from the prior year's international bookings growth rate of 65%, we believe Booking.com's relationships with 105K hotels in 92 countries and relatively little competition help to solidify its market position in Europe and its growing presence in Asia, Latin America, and domestically.
- **Mix-shift towards international to continue to generate higher profit margins.** We believe international will account for ~80% of Priceline's gross profit and given its lower-cost agency approach to hotels, we believe margins will expand each year. We currently project 2011E EBITDA margins to expand 225 bps to 48.7% and for Priceline to exceed 50% margins in 2012.
- **Emerging markets of Asia Pacific and Latin America likely the next frontier, but we expect Europe to remain as main growth driver for at least the next few years.** But, growth in Asia Pacific and Latin America has been robust and will likely remain so given increased online penetration and strong economic growth in those geographies. As of 3Q10, Priceline recorded \$780 million in trailing-twelve-month (TTM) bookings in Asia Pacific, +150% Y/Y, and \$96 million in TTM bookings from Latin America, +300% Y/Y. Combined, these geographies represent ~10% of all international bookings.
- **Overall travel trends continuing to rebound globally.** Airlines are adding more capacity, which might lead to lower fares, and we believe Priceline could benefit from incremental bookings due to the current distribution dispute between American Airlines and Expedia and Orbitz. Additionally, ADRs likely still have room for growth as pricing power typically lags occupancy improvements.
- **Our \$490 price target** is based on ~26x our 2011E PF EPS of \$18.80, which we estimate could be \$0.50 - \$2.00 higher depending on Priceline's European tax rate.

What Could Go Wrong

- **Domestic bookings growth deceleration.** With an expected 80% of Priceline's gross profit stemming from its international operation, domestic results largely take a back seat. But as opaque air continues to decline and with Priceline's decision to limit marketing around this less lucrative product, we project domestic bookings to grow just 10% in 2011, down from 14% in 2010. While Priceline could benefit from the current contract negotiations between AA and Expedia and Orbitz, we believe Priceline's gross profit from air bookings is relatively small.
- **Any disruption from Google's pending acquisition of ITA Software.** We expect the acquisition to be approved this spring and as Google moves further down the conversion funnel it could result in higher marketing costs for the OTAs, including Priceline.
- **FX & European macro headwinds:** Given Priceline's exposure to the Euro, any deterioration in macro trends in Western Europe could impact bookings growth. We note that the euro/USD exchange rate ended 4Q at ~\$1.36, 3% below Priceline's guidance of \$1.40 exchange rate.

What to Watch For

- **Benefit from Netherlands innovation tax benefit.** We believe Priceline's 2011 EPS could be \$0.50 to \$2.00 higher depending on the percentage of Booking.com's earnings that the Netherlands determines to be innovative and we expect to have clarity on this by 1Q earnings.
- **Continued Growth in Booking.com hotels.** Priceline ended 3Q with over 105,000 booking.com hotels in 92 countries and hotel room nights growth accelerated to 54% Y/Y growth from 48% growth in 2Q10.
- **Any risks of American Airlines removing its inventory.** Given Priceline believes it is the lowest-cost distribution partner for the airlines, we do not believe Priceline's AA bookings are risk. In fact, we would not be surprised if Priceline's domestic bookings jumped as a result of the current contract disputes between Expedia and Orbitz and AA.
- **Mobile commerce.** OTAs, like others within the Internet sector, have clearly increased their focus on the mobile & social components of the Web. Expedia, Orbitz, and Travelocity all believe mobile devices will account for a double-digit percentage of bookings within 12-24 months. This is certainly a trend to watch and Priceline has been aggressively building out its mobile apps.

Amazon (1-Overweight/1-Positive, \$184.68)

Why We Think It Outperforms in 2011

- **We expect continued strong top-line growth in 2011 driven by EGM, International, digital media, and secular trends. Amazon has a long runway for growth as eCommerce still only comprises ~7% of total retail and Amazon has a low double-digit share of eCommerce in the U.S.** Strong secular growth and execution could enable 20%+ top-line growth for several years.
- **Amazon's International and EGM businesses should be the primary growth driver going forward** as Amazon categories are less mature overseas and products like Prime and third-party are still gaining scale. EGM now comprises 53% of total sales and we expect the mix shift away from Media to continue as Amazon aggressively adds new product categories to its offering.
- **Amazon continues to build competitive barriers through scale, efficiency, low margins, Prime, and third-party sales.** Amazon is inherently a logistics and fulfillment company and continues to create higher competitive barriers. While traditional retailers are aggressively focusing online, we believe they will have a difficult time matching Amazon's abilities around pricing, free shipping/Prime, and selection. Management believes low margins create a more defensible business and the company is still in market share mode as it invests in core initiatives. And where Amazon has seen competition in specific verticals, it has made acquisitions such as Zappos and Quidsi.
- **Amazon's Kindle has been selling very well, and we expect momentum to continue into 2011 with digital books being a bigger driver of revenue than devices.** Amazon commented that it had sold "millions" of Kindles in the first 73 days of the holiday season, more units than it sold in all of 2009.
- **Amazon's operating margins should expand again in the back half of 2011** as the company rolls off investments and grows into new fulfillment centers and a larger employee base.
- **Our \$195 price target is based on 25x 2011E FCF/share of \$7.80.**

What Could go Wrong

- **Amazon could guide for low margins again in 1Q11 for the 3rd straight quarter.** Amazon has gotten a pass on recent profitability given strong revenue growth and the spending seemingly pegged to near-term sales. However, another quarter of disappointing margins could lead some to think Amazon is engaged in another heavy period of investment along with adverse seasonality.
- **Amazon could enter the subscription streaming space with upfront content obligations.** We think this is unlikely as the company would probably prefer variable content deals based on usage or subscriber numbers. And while it is in the interest of studios and PayTV networks to enable competitors to Netflix, it remains unclear whether they would be willing to give Amazon favorable deals early on.

What to Watch For

- Profit guidance for 2011 in January when the company reports 4Q10 results. This is a particularly important topic in light of Amazon's heavy investment spending over the

last few quarters and its lack of transparency as to a longer term normalized spending rate.

- Further announcements around Amazon's stake in LoveFilm and any indications that the company plans to enter the subscription streaming space.
- Any plans to increase its stake in Living Social or attempt to build out its own local group buying platform.
- Announcements around AWS, which we believe continues to gain traction, represents the lions share of Amazon's "Other" line, and is an incremental margin driver that we believe is currently operating at a ~\$750M run rate and growing at ~50%.

Figure 7: Large-Cap Internet Coverage Comps

(US\$, millions except per share)								
Company Symbol		Google GOOG	Yahoo! YHOO	eBay EBAY	Amazon AMZN	Large Cap Average	Priceline.com PCLN	Expedia EXPE
Barclays Capital Rating		1-Overweight	1-Overweight	2-Equal Weight	1-Overweight		1-Overweight	2-Equal Weight
Price as of	1/10/2011	\$614.21	\$16.60	\$28.26	\$184.68		\$440.56	\$25.51
Shares Outstanding 2010		323	1,369	1,327	456		51.5	292
Shares Outstanding 2011		327	1,346	1,333	459		52.3	270
Shares Outstanding 2012		333	1,326	1,343	462		53.1	272
Market Capitalization		\$198,244	\$22,733	\$37,511	\$84,122		\$22,671	\$7,446
Net Debt 2010		(35,971)	(3,590)	(6,100)	(8,915)		551	375
Net Debt 2011		(46,390)	(3,667)	(9,008)	(12,694)		571	127
Net Debt 2012		(58,713)	(4,856)	(12,036)	(16,715)		571	(537)
Less: Non-Consolidated Assets & Investments		145	7,465	751				
Plus: Minority Interest & Other								288
Total Enterprise Value 2010		162,128	11,678	30,660	75,206		23,222	8,108
Total Enterprise Value 2011		154,052	11,211	27,924	72,051		23,594	7,296
Total Enterprise Value 2012		145,415	9,690	25,178	68,584		23,947	6,683
EARNINGS PER SHARE (EPS) ⁽¹⁾								
EPS 2010		\$28.87	\$0.79	\$1.64	\$3.59		\$13.22	\$1.71
EPS 2011		\$33.71	\$0.86	\$1.85	\$4.61		\$18.80	\$2.04
EPS 2012		\$38.62	\$0.97	\$2.01	\$5.89		\$24.10	\$2.32
2009 - 2012 EPS CAGR		18%	17%	8%	30%	18%	41%	19%
P/E 2010		21.3x	21.1x	17.2x	51.4x		33.3x	15.0x
P/E 2011		18.2x	19.4x	15.2x	40.0x	23.2x	23.4x	12.5x
P/E-to-Growth		1.0x	1.2x	1.8x	1.3x		0.6x	0.7x
P/E 2012		15.9x	17.0x	14.0x	31.4x		18.3x	11.0x
FREE CASH FLOW (FCF)								
FCF 2010		8,647	936	2,205	2,475		759	661
FCF 2011		10,323	1,160	2,574	3,579		961	700
FCF 2012		12,227	1,298	3,083	3,821		1,181	744
2009-2012 FCF CAGR		13%	6%	10%	38%	17%	34%	8%
FCF/Share 2010		\$26.79	\$0.68	\$1.66	\$5.43		\$14.76	\$2.26
FCF/Share 2011		\$31.61	\$0.86	\$1.93	\$7.80		\$18.38	\$2.59
FCF/Share 2012		\$36.76	\$0.98	\$2.29	\$8.27		\$22.26	\$2.74
Price/FCF 2010		22.9x	24.3x	17.0x	34.0x	24.5x	29.9x	11.3x
Price/FCF 2011		19.4x	19.3x	14.6x	23.7x		24.0x	9.8x
P/FCF-to-Growth		1.5x	3.4x	1.5x	0.6x		0.7x	1.2x
Price/FCF 2012		16.7x	17.0x	12.3x	22.3x		19.8x	9.3x
FCF Yield 2010		4.4%	4.1%	5.9%	2.9%	4.3%	3.3%	8.9%
FCF Yield 2011		5.1%	5.2%	6.8%	4.2%		4.2%	10.2%
FCF Yield 2012		6.0%	5.9%	8.1%	4.5%		5.1%	10.7%
EBITDA								
EBITDA 2010		13,081	1,625	3,236	2,488		889	957
EBITDA 2011		15,296	1,760	3,447	3,113		1,304	1,041
EBITDA 2012		17,467	1,918	3,740	3,826		1,692	1,146
2009-2012 EBITDA CAGR		17%	3%	7%	31%	15%	46%	10%
EV/EBITDA 2010		12.4x	7.2x	9.5x	30.2x	14.8x	26.1x	8.5x
EV/EBITDA 2011		10.1x	6.4x	8.1x	23.1x	11.9x	18.1x	7.0x
EV/EBITDA-to-Growth		0.6x	1.8x	1.2x	0.7x	0.8x	0.4x	0.7x
EV/EBITDA 2012		8.3x	5.1x	6.7x	17.9x		14.2x	5.8x
REVENUE								
Revenue 2010		21,706	4,556	9,144	34,293		3,091	3,356
Revenue 2011		25,562	4,420	9,969	43,417		3,932	3,900
Revenue 2012		29,285	4,565	10,780	53,014		4,719	4,428
2009-2012 Revenue CAGR		19%	-1%	7%	32%	14%	26%	14%
Market Cap/Revenue 2010		9.1x	5.0x	4.1x	2.5x		7.3x	2.2x
Market Cap/Revenue 2011		7.8x	5.1x	3.8x	2.0x	4.7x	5.9x	1.8x
Market Cap/Revenue 2012		7.0x	4.8x	3.5x	1.6x	4.2x	5.0x	1.6x

Notes:

1) All EPS shown are Pro Forma, to exclude the impact of stock based compensation.

2) P/E and P/FCF for Yahoo! does not adjust for Yahoo! Japan

3) LINTA Price-to-FCF multiples and FCF Yield are calculated by subtracting the estimated value per share of LINTA's non-consolidated assets from the LINTA price per share.

Source: Company Reports, Barclays Capital estimates

Figure 8: Internet Coverage Comps continued

(US\$, millions except per share)								
Company Symbol		Orbitz OWW	Netflix NFLX	AOL AOL	IAC IACI	Liberty Interactive (3) LINTA	Blue Nile NILE	TechTarget TTGT
Barclays Capital Rating		2-Equal Weight	2-Equal Weight	2-Equal Weight	2-Equal Weight	2-Equal Weight	1-Overweight	2-Equal Weight
Price as of	1/10/2011	\$5.25	\$187.88	\$24.07	\$29.68	\$16.05	\$57.32	\$7.19
Shares Outstanding 2010		103	54	108	111	605	15	44
Shares Outstanding 2011		104	53	110	97	605	15	36
Shares Outstanding 2012		105	53	113	97	608	15	37
Market Capitalization		\$543	\$10,181	\$2,592	\$3,297	\$9,709	\$860	\$317
Net Debt 2010		365	(37)	(841)	(1,133)	4,505	(94)	(56)
Net Debt 2011		285	(20)	(1,224)	(1,397)	3,423	(104)	(75)
Net Debt 2012		202	(165)	(1,981)	(1,669)	2,247	(148)	(98)
Less: Non-Consolidated Assets & Investments					154	1,837		
Plus: Minority Interest & Other						732		
Total Enterprise Value 2010		908	10,144	1,752	2,010	13,109	766	261
Total Enterprise Value 2011		834	9,981	1,428	1,328	12,027	727	183
Total Enterprise Value 2012		756	9,742	744	1,057	10,899	684	167
EARNINGS PER SHARE (EPS) ⁽¹⁾								
EPS 2010		\$0.55	\$3.02	\$3.26	\$1.00	\$1.05	\$1.25	\$0.25
EPS 2011		\$0.61	\$4.35	\$1.69	\$1.42	\$1.30	\$1.48	\$0.39
EPS 2012		\$0.68	\$6.62	\$1.67	\$1.81	\$1.45	\$1.71	\$0.45
2009 - 2012 EPS CAGR		16%	49%	-28%	71%	17%	14%	37%
P/E 2010		9.5x	62.2x	7.4x	29.7x	15.3x	45.9x	28.9x
P/E 2011		8.5x	43.2x	14.2x	20.9x	12.3x	38.8x	18.2x
P/E-to-Growth		0.5x	0.9x	NA	0.3x	0.7x	2.7x	0.5x
P/E 2012		7.7x	28.4x	14.4x	16.4x	11.0x	33.5x	15.9x
FREE CASH FLOW (FCF)								
FCF 2010		75	95	527	266	967	35	15
FCF 2011		80	122	359	264	1,083	40	19
FCF 2012		83	209	742	271	1,176	44	23
2009-2012 FCF CAGR		NA	8%	1%	11%	NM	6%	9%
FCF/Share 2010		\$0.72	\$1.75	\$4.90	\$2.40	\$1.60	\$2.36	\$0.35
FCF/Share 2011		\$0.77	\$2.29	\$3.25	\$2.72	\$1.79	\$2.72	\$0.53
FCF/Share 2012		\$0.79	\$3.97	\$6.56	\$2.79	\$1.93	\$3.01	\$0.63
Price/FCF 2010		7.2x	107.1x	4.9x	12.4x	8.7x	24.3x	20.5x
Price/FCF 2011		6.8x	82.0x	7.4x	10.9x	7.8x	21.0x	13.6x
P/FCF-to-Growth		NM	9.7x	NA	1.0x	NM	3.5x	1.5x
Price/FCF 2012		6.7x	47.3x	3.7x	10.6x	7.8x	19.1x	11.5x
FCF Yield 2010		13.8%	0.9%	20.3%	8.1%	11.4%	4.1%	4.9%
FCF Yield 2011		14.6%	1.2%	13.5%	9.2%	12.8%	4.8%	7.3%
FCF Yield 2012		15.0%	2.1%	27.2%	9.4%	12.8%	5.2%	8.7%
EBITDA								
EBITDA 2010		152	332	734	257	1,744	32	20
EBITDA 2011		163	445	482	298	1,899	36	24
EBITDA 2012		171	637	460	351	2,074	41	28
2009-2012 EBITDA CAGR		7%	39%	-24%	28%	8%	12%	26%
EV/EBITDA 2010		6.0x	30.5x	2.4x	7.8x	7.5x	24.3x	13.4x
EV/EBITDA 2011		5.1x	22.4x	3.0x	4.5x	6.3x	20.4x	7.6x
EV/EBITDA-to-Growth		0.7x	0.6x	NA	0.2x	0.8x	1.6x	0.3x
EV/EBITDA 2012		4.4x	15.3x	1.6x	3.0x	5.3x	16.5x	5.9x
REVENUE								
Revenue 2010		747	2,162	2,395	1,641	8,920	327	94
Revenue 2011		814	2,917	2,077	1,794	9,703	354	103
Revenue 2012		874	3,759	1,890	1,964	10,414	400	113
2009-2012 Revenue CAGR		-2%	31%	-16%	13%	8%	10%	9%
Market Cap/Revenue 2010		0.7x	4.7x	1.1x	2.0x	1.1x	2.6x	3.4x
Market Cap/Revenue 2011		0.7x	3.4x	1.3x	1.6x	1.0x	2.3x	2.5x
Market Cap/Revenue 2012		0.6x	2.6x	1.4x	1.5x	0.9x	2.1x	2.3x

Notes:

1) All EPS shown are Pro Forma, to exclude the impact of stock based compensation.

3) LINTA Price-to-FCF multiples and FCF Yield are calculated by subtracting the estimated value per share of LINTA's non-consolidated assets from the LINTA price per share.

Source: Company Reports, Barclays Capital estimates

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Primary Stocks (Ticker, Date, Price)

Amazon.com, Inc. (AMZN, 23-Dec-2010, USD 182.59), 1-Overweight/1-Positive
AOL Inc. (AOL, 23-Dec-2010, USD 24.39), 2-Equal Weight/1-Positive
Blue Nile (NILE, 23-Dec-2010, USD 56.08), 1-Overweight/1-Positive
eBay, Inc. (EBAY, 23-Dec-2010, USD 28.32), 2-Equal Weight/1-Positive
Expedia, Inc. (EXPE, 23-Dec-2010, USD 26.33), 2-Equal Weight/1-Positive
Google Inc. (GOOG, 23-Dec-2010, USD 604.23), 1-Overweight/1-Positive
IAC/InterActiveCorp (IACI, 23-Dec-2010, USD 29.71), 2-Equal Weight/1-Positive
Liberty Media Holding-Interactive (LINTA, 23-Dec-2010, USD 15.93), 2-Equal Weight/1-Positive
Netflix Inc. (NFLX, 23-Dec-2010, USD 184.58), 2-Equal Weight/1-Positive
Orbitz Worldwide Inc. (OWW, 23-Dec-2010, USD 5.82), 2-Equal Weight/1-Positive
Priceline.com Inc. (PCLN, 23-Dec-2010, USD 413.19), 1-Overweight/1-Positive
TechTarget Inc. (TTGT, 23-Dec-2010, USD 7.79), 2-Equal Weight/1-Positive
Yahoo! Inc. (YHOO, 23-Dec-2010, USD 16.72), 1-Overweight/1-Positive

Materially Mentioned Stocks (Ticker, Date, Price)

Apple, Inc. (AAPL, 23-Dec-2010, USD 323.60), 1-Overweight/1-Positive
Motorola Mobility Holdings (MMI, 23-Dec-2010, USD 28.80), 1-Overweight/2-Neutral
Verizon Communications (VZ, 23-Dec-2010, USD 35.44), 2-Equal Weight/2-Neutral

Other Material Conflicts

MMI: Barclays Capital is acting as financial advisor to Motorola in the company's separation of its mobile unit, Motorola Mobility Holdings, from Motorola.

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1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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Amazon.com, Inc. (AMZN)	AOL Inc. (AOL)	Blue Nile (NILE)
eBay, Inc. (EBAY)	Expedia, Inc. (EXPE)	Google Inc. (GOOG)
IAC/InterActiveCorp (IACI)	Liberty Media Holding-Interactive (LINTA)	Netflix Inc. (NFLX)
Orbitz Worldwide Inc. (OWW)	Priceline.com Inc. (PCLN)	TechTarget Inc. (TTGT)
Yahoo! Inc. (YHOO)		

U.S. IT Hardware

Apple, Inc. (AAPL)	Dell Inc. (DELL)	EMC Corp. (EMC)
Hewlett-Packard (HPQ)	IBM Corp. (IBM)	Ingram Micro Inc. (IM)
Lexmark International (LXK)	NetApp, Inc. (NTAP)	Seagate Technology (STX)
Tech Data Corp. (TECD)	Western Digital Corp. (WDC)	Xerox Co. (XRX)

U.S. Telecom Services

American Tower Corp. (AMT)	AT&T Inc. (T)	Crown Castle International Corp. (CCI)
Equinix, Inc. (EQIX)	Leap Wireless International Inc. (LEAP)	MetroPCS Communications Inc. (PCS)
Qwest Communications International Inc. (Q)	SAVVIS, Inc. (SVVS)	SBA Communications Corp. (SBAC)
Sprint Nextel Corp. (S)	Verizon Communications (VZ)	

U.S. Wireless Equipment

Amdocs Ltd. (DOX)	Ceragon Networks Ltd. (CRNT)	Cogo Group, Inc. (COGO)
Commscope (CTV)	Comverse Technology, Inc. (CMVT)	Ericsson (ERIC)
Garmin, Ltd. (GRMN)	Motorola Mobility Holdings (MMI)	Motorola Solutions, Inc. (MSI)
Nokia (NOK)	Powerwave Technologies (PWAV)	Research In Motion (RIMM)
Sierra Wireless (SWIR)	Syniverse Holdings Inc. (SVR)	Tekelec (TKLC)

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