Operator

Greetings. Thank you for standing by. Good day, everyone and welcome to the Amazon.com Q1 2015 Financial Results Teleconference. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's call is being recorded.

For opening remarks, I will be turning the call over to the Director of Investor Relations, Phil Hardin. Please go ahead.

Phil Hardin

Hello and welcome to our Q1 2015 financial results conference call. Joining us today is Tom Szkutak, our CFO and Brian Olsavsky, Vice President and CFO of our Global Consumer Business. We will be available for questions after our prepared remarks.

The following discussion and responses to your questions reflect management's views as of today, April 23rd, 2015 only and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent Annual Report on Form 10-K.

As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results, as well as metrics and commentary on the quarter. In addition, the release includes historical financial results of our North America, International, and Amazon Web Services reportable segments for 2014 and 2013.

During this call, we will discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures.

Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2014.

Now, I'll turn the call over to Brian.

Brian Olsavsky

Thanks, Phil. I'll begin with comments on our first quarter financial results. Trailing 12-month operating cash flow increased 47% to $7.84 billion. Trailing 12-month free cash flow increased to $3.16 billion.

In the supplemental financial information and business metrics portion of our earnings release, we included a few additional free cash flow measures. We believe these measures provide additional perspective on the impact of acquiring property and equipment with cash into capital and finance leases.

Trailing 12 month capital expenditures were $4.68 billion. Capital expenditures do not include the impact of property and equipment acquired under capital and finance lease obligations.

Return on invested capital is 14%, up from 9%. ROIC is trailing 12 month free cash flow divided by average total assets minus current liabilities, excluding the current portion of long-term debt over five quarter ends. The combination of common stock and stock-based awards outstanding was 483 million shares, compared with 476 million one year ago.

Worldwide revenue grew 15% to $22.72 billion or 22%, excluding $1.3 billion unfavorable impact from year-over-year changes in foreign exchange. Worldwide paid unit growth was 20%. Active customer accounts was approximately 278 million.

Excluding customers who only had free orders in the preceding 12 month period, worldwide active customers were approximately $260 million, up from approximately $230 million in the comparable prior year period. Worldwide active seller accounts were more than 2 million. Seller units represented 44% of paid units.

Now I'll discuss operating expenses excluding stock-based compensation. Cost of sales was $15.40 billion or 67.8% of revenue, compared with 71.2%. Fulfillment, marketing, technology and content and G&A combined was $6.62 billion or 29.1% of sales, up approximately 290 basis points year-over-year.

Fulfillment was $2.67 billion or 11.7% of revenue compared with 11.3%. Tech and content was $2.52 billion or 11.1% of revenue compared with 9.2%. Marketing was $1.05 billion or 4.6% of revenue compared with 4.3%.

Now I'll talk about our segment results. Beginning in the first quarter we changed our reportable segments to report North America, International and Amazon Web Services. In addition we have provided historical results for these segments for 2014 and 2013 with our earnings release filing today. Consistent with prior periods we do not allocate to segments our stock-based compensation or the other operating expense line item.

In the North America segment, revenue grew 24% to $13.41 billion. Media revenue grew 5% to $2.97 billion. EGM revenue grew 31% to $10.25 billion, representing 76% of North America revenues.

North America segment operating income increased 79% to $517 million, a 3.9% operating margin. Excluding the favorable impact from foreign exchange, North America segment operating income increased 77%.

In the international segment, revenue decreased 2% to $7.74 billion. Excluding the $1.3 billion year-over-year unfavorable foreign exchange impact, revenue growth was 14%. Media revenue decreased 12% to $2.32 billion or increased 2%, excluding foreign exchange. EGM revenue grew 4% to $5.38 billion or 21%, excluding foreign exchange. EGM now represents 69% of international revenues.

International segment operating loss was $76 million, compared to a loss of $33 million in the prior year period. The unfavorable impact from foreign exchange, international segment operating loss was $78 million.

In the Amazon Web Services segment, revenue grew 49% to $1.57 billion. Amazon Web Services segment operating income increased 8% to $265 million, a 16.9% operating margin. Excluding the favorable impact from foreign exchange, AWS segment operating income decreased 13%.

Consolidated segment operating income increased 41% to $706 million or 3.1% of revenue, up approximately 60 basis points year-over-year. Excluding the unfavorable impact from foreign exchange, CSOI increased 45%.

Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income was $255 million compared to $146 million in the prior year period.

Our income tax expense was $71 million. GAAP net loss was $57 million or negative $0.12 per diluted share, compared with a net income of $108 million and $0.23 per diluted share.

Turning to the balance sheet. Cash and marketable securities increased $5.12 billion year-over-year to $13.78 billion. Inventory increased 10% to $7.37 billion and inventory turns were 8.8, down from 9.1 turns a year ago, as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 13% to $11.92 billion and accounts payable days increased to 70 from 68 in the prior year.

I'll conclude my portion of today's call with guidance. Incorporated into our guidance are the order trends that we've seen to-date and what we believe today to be appropriately conservative assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including a high level of uncertainty surrounding exchange rate fluctuations, as well as the global economy and consumer spending. It's not possible to accurately predict demand and therefore our actual results could differ materially from our guidance.

As we describe in more detail in our public filings, issues such as settling intercompany balances in foreign currencies amongst our subsidiaries, unfavorable resolution of legal matters and changes to our effective tax rates can all have a material effect on guidance.

Our guidance further assumes that we don't conclude any additional business acquisitions, investments, restructurings or legal settlements, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they've been recently.

For Q2, 2015 we expect net sales of between $20.6 billion and $22.8 billion or growth of between 7% and 18%. This guidance anticipates approximately 750 basis points of unfavorable impact from foreign exchange rates.

GAAP operating income or loss to be between a $500 million loss and a positive $50 million of income, compared to $15 million loss in second quarter 2014. This includes approximately $600 million for stock-based compensation and amortization of intangible assets.

We anticipate consolidated segment operating income, which excludes stock-based compensation and other operating expense to be between $100 million and $650 million, compared to $404 million in the second quarter of 2014.

We remain heads down focused on driving a better customer experience through price, selection and convenience. We believe putting customers first is the only reliable way to create lasting value for shareholders.

Thanks. And with that, Phil, let's move on to questions.

Phil Hardin

Great. Thanks, Brian. Let's move on to the Q&A portion of the call. Operator, will you please remind our listeners how to initiate a question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Brian Pitz with Jefferies and Company. Please proceed. Your line is live.

Brian Pitz

Thank you. Can you share with us any updated metrics for Prime Now, how sticky is it in terms of repeat customers, average order value or other details? And also any update on your fulfillments center plans for the year, if you can disclose specific numbers, maybe you could just qualitatively tell us your focus either domestic versus international or sortation versus traditional FC build out? Thanks.

Tom Szkutak

Sure. On Prime Now, we don’t have specific metrics we want to share today. But we have expanded to seven cities with more on the way. Customers are really enjoying the one hour and two delivery of tens of thousands of daily essential products.

So the response has been great. We will point out that our operations network that was – has been building for the last 20 years helps make Prime Now a viable proposition for us and scale makes a possible. So really so far customer responses are great.

Brian Olsavsky

And Brian on FCs, you know, as we've done prior years, it’s early in the year and as we progress through the year we'll give you some updates on how many. But as a reminder we ended the year with 109 fulfillment centers around the world and we'll update you as we go.

Operator

Our next question comes from Ross Sandler with Deutsche Bank. Please proceed.

Ross Sandler

Great. Thanks for the new disclosure guys, really helpful. I guess, just speaking, you know, now a little bit we all understand the investments you are guys are making on international, retail, and maybe with our margins been declining.

Can you give us a little color on what's driving up the North America retail segment margin and I guess in the context of that, just talk about the impact that Prime is having on the retail margin for both North America and International? Thanks.

Brian Olsavsky

Yes, sure. So North America operating margin up a 120 basis points year-over-year to 3.9%. Lot of good cost efficiency, but again we're continuing to invest so actively as we build the Prime platform and that we have customers. So you'll see lot of invention definitely to see the Prime platform, which things like Video Content, Prime Music, as we talk about Prime Now devices that will continue to build fulfillment centers for selection and expansion in FBA. So that’s – its generally what's driving the operating margin in North America.

Tom Szkutak

And just to add on to that, we're – we gave metrics last quarter about Prime. It’s growing very fast. As Brian said, we're feeding the platform and certainly common thing with category expansion, new FCs, original content, Prime Instant Video devices, Prime Now. The common theme is they are all really intertwined with Prime and inextricably to our consumer business in Prime.

So it’s just we're happy to do it. And the last quarter we gave an indication of the growth rates after being added for 10 year. So we're super excited to have the platform and to continue to invest in it.

Ross Sandler

Great. Thanks guys.

Operator

Our next question comes from Douglas Anmuth with JPMorgan.

Douglas Anmuth

Thanks for taking the question. Can you guys talk a little bit more just about the international business and kind of the key initiatives here in terms of getting the growth to reaccelerate some of these levels?

And then also perhaps little bit more on your strategy. In China how you are thinking about the cost structure there, relative to previous years and some of the key ways you might be able to rationalize things there? Thanks.

Brian Olsavsky

Yes, let me start with China. So, I think you'll see a lot invention, you're seeing a lot of invention from us in China right now. Amazon is trusted source of authentic [ph] international products and that’s really what we're doubling down on now with a Amazon global store on our own site, which gives Chinese customers access to over 1 million Amazon products globally.

And then the team of flagship store for international brands which you've heard about giving thousands of direct imported products access to – customer’s access to these products and those happen to be stocked and ready to ship from our fulfillment centers in China. So that’s an added benefit. 25% of those are exclusive – over 25% of those exclusives to Amazon.

So we continue to be selective in our investments there, but we're taking the long-term view and we have hopes for the new initiatives along the global – with the global store and the team of flagship store.

Tom Szkutak

In terms of the growth for total international, just maybe some comments first about the current quarter and then I'll elaborate little bit further. But the growth was down 2% on a dollar basis, up 14% on local currency basis. So we did see a little bit of improvement in terms of growth rate acceleration versus last couple of quarters.

And in addition to the things that Brian mentioned earlier about the Prime platform, that’s something that we're doing globally. And so we're certainly – all those things we're working on globally. So those are things that at least in most geographies we have today.

One thing to keep in mind also, as you look at growth rate for Q1, is last year Q1 we talked about in April 1st there was a consumption tax increase in Japan. We had some –we think some pre-buys in Q1 and we're overlapping that in Q1 of this year. So it’s a headwind if you think about it for Q1.

But we're looking – we think there is still a big opportunity, as we mentioned last call, big opportunity with Prime. Prime is growing at a faster rate. We think there is still a great opportunity to add unique selection to – for category expansion. And again, so we're going to continue feed the Prime platform as we talked about, continue to add selection in a lot of categories.

We're also very excited about India, if you take a look at our results for – from an operating profit standpoint, you see that it was approximately negative 76 million on a dollar basis. If you back out exchange that’s approximately breakeven, included in there we certainly have a sizeable step up in investment in India. And we're super excited from what we see there right now. We think its very big opportunity and we're investing appropriately for that big opportunity.

So those are some of things that we're working on and we think there – we still have a lot of opportunity there moving forward.

Operator

Our next question comes from Brian Nowak with Morgan Stanley.

Brian Nowak

Great. Thanks for taking my questions. I have two. The first one is on the new inter US [ph] disclosure. Can you just help us on accounting question. The AWS data center costs related to the core e-commerce business, are those being allocated to North America and International, are those being fully embedded into the AWS segment?

And then a second question goes back to China. I guess any early learnings from the team of [ph] partnership and whether you have any thoughts or potentially a lower capital intensive grow strategy in China?

Tom Szkutak

To answer you first question, yes, they are, the associated infrastructure cost to run our North America and International consumer business those costs, those infrastructure costs are being allocated to those segments.

The second question in terms of China, its early, we're liking – certainly some of things that we're seeing there, but there is not a lot I can add to that at this stage.

Brian Nowak

Thank you.

Operator

Our next question comes from Colin Sebastian with Robert Baird.

Colin Sebastian

Great. Thanks. Maybe just another follow up on the new segment disclosures. Thanks for breaking it out. You know if we assume that the advertising segment is reasonably profitable than the implication is then that the core retail business is very modestly profitable close to breakeven.

And just wondering what the thought process and strategy is behind that. If in a sense there is some subsidy to the retail side being used as you build market share in the core business? Thanks.

Tom Szkutak

Yes, I think the best way to think about it is, we certainly have an advertising part of our North American consume segments. But the way you should think about it is, we are making some great investments for the long-term and that’s really what's reflected in the operating results that you are seeing in terms of – so it is certainly impacting the operating margins both for North American and International.

So it’s the things that we – both Brian and I talked about that we're doing globally to support Prime platform all of those things that we mentioned, video content, original content, Prime Now, category expansion, investing on behalf of FBA, which also helps Prime devices. Those are all intertwined and certainly part of that. And then some of the things outside of that are more specifically related to International in addition to those are some of geographic stuff that we talked about.

So I think you should think about it that way that certainly think its big opportunity and again, one of the reasons I want to give you an update, last quarter on Prime growth and you can see that that’s going very well. And so we're feeding that and that’s what we have been doing and that’s what you see also and certainly results that you are seeing today.

Colin Sebastian

Very helpful. Thanks very much.

Tom Szkutak

Sure.

Operator

Our next question comes from Mark May with Citi.

Mark May

Thanks for taking my questions. On the international revenue I believe there is probably – there's a real distinction here between some of your more established countries and some of your more emerging countries. I wonder if you could talk a little bit about for Germany and the UK and Japan and some of the more established markets, what the profit profile of those markets look like and just how much of the international segment results are being – losses being held back by a handful of the more emerging markets.

And then a question on AWS pricing. It seemed like the pricing environment was pretty competitive last year. What are you seeing in the market this year and what are your expectations going forward? Are you expecting a bit more of a stable pricing environment? Thanks.

Tom Szkutak

Yes, in terms of International, we're not breaking out individual country results. The one thing that could mentioned around from a country perspective was India in terms of which – it certainly stepped up our investment. And if you look at it year-over-year, so that’s certainly reflected in the numbers that you are seeing.

In terms of AWS, we've had 48 price decreases since inception. The team is doing a terrific job in terms of working on behalf of customers to pass on savings as they see it. But in terms of any comment on what to expect going forward there is not really much to add there.

Brian Olsavsky

Its probably is worth adding that, although prices are factor, the primary factor for customers choosing with AWS is really around their ability to move quickly and to be nimble and agile.

And so we're very pleased with the kind of continued adoption and usage growth we've seen and obviously the benefits of AWS around their ability – customers ability to be nimble as a primary factor there.

Operator

Our next question comes from Carlos Kirjner with Bernstein.

Carlos Kirjner

Hi. Thanks for taking my question. I have two. My first question is about the profitability of the North America segment. You mentioned a few minutes ago that investments in Prime were part of the – most of the explanation for what is a relatively low 3.9% margin in North America. Which are much lower than the 5% to 6% EBIT margin that [indiscernible] retailer books? Despite a large benefit of booking repeat net.

Here's the question. Prime is not new in North America. You probably have tens of millions of Prime users in the US, 30, 40, 50 million. Yet margins are still low. What gives you confidence that the investments that you are making will pay off?

Second question on AWS, if you look at expenses like R&D, perhaps even the fixed component of marketing and sales, which presumably one day will be really fixed, are this still growing significantly? In other words, is there room for significant margin expansion at some point in the future when AWS, I don't know 2 to 5 or 10 times its current size or do you expect the need to scale up at the same rate as revenues? Thank you.

Tom Szkutak

In terms of your first question, specifically related to North America, one of the – our comments we made last quarter that we disclosed was, we disclosed the growth rate globally, as well as the growth rate in the US. And the growth rate in US after 10 years is up 50%, it was 50% year-over-year. And so 2014 versus 2013 in terms of Prime membership and that's after a price increase on Prime from 79 to 99.

And so, it gives you a feel for the work that we put into Prime to make that experience great for customers and the value that we are giving them. So again, given that growth. And so, that's what – that's certainly one of the things that gives us comfort, but when we look at the individual pieces we like what we see, so in other words, some of the investments we're making, I think as we've talked about in the past, I'll give one example would be video content, both original and license content.

We mentioned last call that we spent approximately $1.3 billion on content globally for Prime customers and what we've seen and to date is was certainly still an investment for us, its certainly impacting our operating results, but we like what we see. We see customers who come in through our free trial pipeline if you will for video content. They convert it at a higher rate. We see – we have a great retention of Prime members, but those who scream actually, we retain those at a higher rate and we bring in new customers through our video pipeline.

The purchasing pattern that we have for those customers is very similar to those who come in from other pipeline. So in other words, they are buying very good from a physical product standpoint, as well as digital. So they are buying a diverse set of products.

So in other words, this video content that we're spending is helping us customers who buy consumable from us, they will buy clothing from us, they will buy shoes from us, they will buy electronics, they will buy media items.

So that's what we're seeing and so again it's some of these things are very early. We'll have to over time how efficient they are, but each period we go we keep the data that we see we're encouraged. And so that's just one example.

But that’s why we're investing a lot in Prime and we think it’s a great – the Prime platform if you will, and we think it’s a great opportunity and again as I mentioned earlier all these things we're investing in are very intertwined.

Brian Olsavsky

And Carlos, I think you had a question about AWS. From our perspective its business that’s still really in day one. A lot of potential innovation in front of us we believe. And so you can see we're putting a lot of CapEx obviously there and including capital leases and we think over time we will be able to generate significant free cash flow with stronger ROICs.

Operator

Our next question comes from Mark Mahaney with RBC Capital Markets.

Mark Mahaney

Thanks. Thanks. I want to go back on North America retail margins and just I want to try to figure out, I know you're not going to go, where they could go, but if we look in the past, I assume that if the base o2014 and in full year 2013 was probably depressed for North American retail margins, North American segment margins and if we look back five or six years, it's probable that that was running at kind of mid to high single digits CSOI margins. Kind of similar to the incremental margins you just reported for that segment 8.7%.

So I guess the big question I want to ask is, is there a structural change in the North American retail business over the next – this year and the next couple years versus what you had call it in 2004 to 2009 when the margins were – I think were pretty clearly higher and now you're going to be recovering to those levels. That's what I'm trying to get at. Any color would be great? Thanks.

Tom Szkutak

Yes, the – thanks for the question Mark. Just in terms of going forward, we're not giving any specific guidance, beyond the current quarter. So I can't predict for you what could happen. But what you mentioned is, and some of the periods you were describing as you mentioned what our business look like, several years ago when we Prime was nascent and we were early – a bit earlier business.

And so we go through different cycles. We're certainly still investing very heavily. That being said, we – as I mentioned last quarter, we're spending time on making sure that we get productivity. So we're working on both investing heavily in the business, we're working on fixed and variable productivity in other areas, putting a lot more energy into it.

That’s what's helping us with the improvement that Prime mentioned in terms of operating margins year-over-year, it’s a number of different aspects, but certainly mix of business and some productivity is certainly impacting that.

But again we think there is opportunities to improve margins over time, you'll have to stay tuned on that to see what it looks like. But we certainly as you can see from not only results, but some of the data points that we've given over the last several quarters we are investing heavily in the business, again, because we like what we see and Prime growing so dramatically globally after being in it for long time and we think that that’s a great platform to feed.

Mark Mahaney

Okay. Thanks, Tom.

Operator

Our next question comes from Justin Post with Merrill Lynch.

Justin Post

Hey, couple of questions on margins. First on AWS a think those are higher than most of us were thinking. Appreciate the disclosure. What is driving your margin versus your pricing decision? How do you think about passenger cost efficiencies or potential margin growth through your customers.

And then secondly on international margins you know, clearly below history, below the US, what kind of things need to happen to get those at least to where the US is today much less back to where they were six or seven years ago? Thank you.

Tom Szkutak

Justin I'll take the AWS portion of the question first. So our model over the long-term really has been to innovate and to use our scale and position to be able to pass savings along to customers. And so we've had 48 price decreases since we launched.

As I talked about earlier, that’s one factor customers save a lot of money, but the primary motivator is really around the innovation that AWS enables and the ability for developers to move really quickly.

Brian Olsavsky

And in terms of international, again as you mentioned Justin, we are investing a lot right now which impacts the margins there again ex-exchange think of it as approximately breakeven for the quarter. And so again, we're continuing to invest. We're investing in all the things that we talked about related to the platform, continue invest in some emerging geographies, most notably certainly India with the step up given the experience we have.

And so we are optimistic over time. We have a lot to do there, we think it’s a great opportunity for us. And so that’s what we're doing, but we're excited about the opportunity and that’s why you see the results that you're seeing there.

Operator

Our next question comes from Heath Terry with Goldman Sachs.

Heath Terry

Great. Thanks. Just wondering if you could give us a sense of how we should think about the run rate of CapEx and capital lease obligations in the quarter as any sort of indication for full-year and the trajectory of investment in fulfillment and data centers.

And then just on the question of a Prime and Prime Video, as we think about the way that media growth is trending now, is there a point where you start to think of allocating Prime, some of those Prime revenues to media to account for the – as Prime Video usage increases?

Brian Olsavsky

Yes, in terms of the CapEx question, there is certainly two pieces of that, there is the consumer, the North American, International piece, is a number pieces, but certainly two largest pieces which certainly be the CapEx associated with fulfillment and the second would be infrastructure. And again it’s for AWS versus North America, and International.

I'll take the North America and International first. We're seeing good growth and year-over-year in terms of overall unit growth, in terms of revenue growth, certainly ex-exchange, as I mentioned earlier, it’s early in the year. So we do every year we'll continue to monitor the growth there. We're making plans for the rest of the year and we'll get back to you as we progress throughout the year in terms of what fulfillment capacity will need to support that growth this year.

In terms of web services, it’s obviously growing extremely fast. We saw some acceleration of growth from a revenue perspective. Over the last few quarters here, usage is growing faster than that, so we will be deploying more capital as we go there.

In terms of the amounts, specific amounts, we're not giving guidance on that today and one of the reasons it is growing so fast that we wan to make sure we put the right amount of capital in place and the teams has done a great job doing all the planning and the execution around that, so that’s what we're doing there.

In terms of media, I am not fully sure I understood the question, but as it relates to I think its video, could you repeat the part of that…

Heath Terry

Right. Was just getting a sense of as video becomes such a – becomes a bigger part of the Prime value proposition, do you start to allocate some of the annual revenues from Prime more directly into that media segment. Because of the level of usage associated with Prime Video versus the shipping benefits of Prime?

Tom Szkutak

Heath, we do allocate some Prime to account for the video.

Heath Terry

Okay. Great. Thank you.

Tom Szkutak

Thanks for the question.

Operator

Our next question comes from Gene Munster with Piper Jaffray.

Gene Munster

Good afternoon. Could you talk little bit about the focus on the same day and same hour and specifically about the incremental investments and just some context to how big of those investments are and separately is what the strategic advantages, there is something ultimately obviously to improve the experience. But do you see in any of your data that this opens you up to be more competitive with traditional retailers? Thanks.

Tom Szkutak

Yes, I'll take that one. We certainly as I said earlier, we see this as a natural extension of our existing infrastructure investments we've – the 109 fulfillment centers, again very close to customers. It allows us and locks for a same day and next-day deliveries. And to its extreme one hour and two hour deliveries as you've seen with Prime now.

So we're not forecasting or giving much more on that, but we definitely see it as a valuable customer's proposition, customers and braced it. Again, smaller number of azans [ph] ten to thousands of azans are available for one, two hour delivery and generally in the category, essential products that you would need in short time period.

Brian Olsavsky

And one thing I would add to that as Brian mentioned, earlier as well, we are in seven cities today and there would be more to come. We haven't said how many, but you should be definitely expecting more to come and we're excited to do that.

Operator

Our next question comes from Robert Peck with SunTrust Robinson Humphrey.

Robert Peck

Yes, thank you. I was wondering Tom, could you give us an update on your retail store strategy. Should we expect stores to open up across the US or is that limited to China, New York.

And that number two, India has come up a couple of times on the call today. China had several structural challenges based on the market there. I was curious if you could differentiate what you are seeing that's different in India versus the China challenges? Thank you.

Tom Szkutak

Yes, in terms of our consumer business, we love the business that we have today. We love – we think there is a great opportunity to do that to continue to expand the existing business that we have. In terms of other things we have long standing practice of not talking about what we might or might not do there. In terms of the second part India, and China could you repeat that part, I am sorry?

Robert Peck

Sure. So you talked about India a couple of times today on the call. Obviously it's big area of investment focus for the company. China has some structural challenges based on how the marketplace is. I was wondering if you could differentiate what you are seeing in India that makes you optimistic there versus some of the challenges you faced in China?

Tom Szkutak

Yes. Thank you for the question. They are very different, you'll see the growth rate in India is very rapid. We talked about last year and its increasing investment. I think the biggest differences there focused on sellers and the connection of sellers.

A big part of the challenge there is helping sellers all across India to succeed and grow their online businesses, you'll see from our press release that we've launched a new apps for that. So that helps them manage our inventory better and also respond to customer inquires. So that’s probably the biggest difference that we see between India and China. But and still very, very early on in India.

Operator

Our next question comes from Jason Helfstein with Oppenheimer.

Jason Helfstein

Thanks. So can you talk about how the impact on available third-party SKUs impacts the business, particular in Europe and ultimately what you could do to drive more SKUs through the platform, whether it's lowering third-party rates or is it other factors to try to get more SKUs on their after a third-party?. Thanks.

Tom Szkutak

We spent a tremendous amount of time on our seller business over the years and trying to improve both the experience for sellers, as well as customers. And we've done a lot of interesting things to help sellers and that’s why you see the results that we're seeing today 44% of our units today, as of this quarter, our third party units, that’s up about 400 basis points from last year.

Certainly one of the things that we've talked about its most, that’s notable is fulfillment by Amazon. And so the benefit for sellers is they get to take advantage of our multi newer fulfillment network globally, we have a 109 fulfillment centers globally, as well as our customers get to take advantage of that as prime numbers where we offer in those geography.

So it’s really a great benefit for sellers, its good for sellers, its good for customers and we believe good for share owners too. So again, we're very excited, number of different things we're working on, but certainly one of the drivers along with all of the things that I mentioned is certainly FBA is very helpful.

Operator

Our next question comes from Mark Miller with William Blair and Company

Mark Miller

Hi, good afternoon. Looking at the service sales less the AWS revenues you've got a $4 billion in fees mostly coming from the marketplace off a strong mid-30%. Help us think about the cost that go against those marketplace fees and specifically within fulfillment if you could help us understand how much of the cost is going against 3P are basically FBA fulfillment, perhaps percent of units part of the FC's that are going to 3P?

Tom Szkutak

So Mark, I can't comment on the derive number, but I can say that FBA continues to grow really well, it’s become a bigger and bigger part of our third party mix over the years. I think we gave you an update in Q4 that it was more than 40% of our third party units.

Obviously in the fulfillment line there is cost associated with that as well, as our other third party units as well I think like payment processing and other cost that we incur. So I don’t know if there is much more we can say about that.

Mark Miller

If I can insert a second question, given the upside and profitability in the first quarter, the guidance for the second quarter quite a bit lower. What are the factors you see that are negatives or I guess otherwise people can I think you are sandbagging? Thanks.

Tom Szkutak

Let's take a look at the guidance that we gave, again, we gave as we have in previous quarters, we gave the wide range and from a consolidate segment operating standpoint we gave a 100 to 650, the implied margin at the lower end, the higher end is approximately 50 basis points upwards to 2.9%.

This quarter in Q1 we were up 60 basis points year-over-year in total at the upper end of that forecast implied would be up 80 basis points, so again, that’s the range and we think its appropriate range for Q2.

Operator

Our final question comes from Ron Josey with JMP Securities.

Ron Josey

Great. Thanks for taking the question. Just going back to margins a little bit more on AWS. As a look at the seasonality, I'm wondering if there's any seasonality in margins because it looks like margins 2Q and 3Q came in sub 10% versus mid teens in 4Q and 1Q and then sort of looking at it a different way, maybe given the different profitability into 2Q of last year, did that have any impact on the pricing cuts in April?. Thanks very much.

Tom Szkutak

So, let's start with the increase you saw sequentially in margin from Q2 or Q3 to Q4 of 2014, so revenue grew by about 21.5% sequentially and expense grew by around 10% so obviously we were growing faster in top line and expenses.

Over the long-term improvements and efficiency and innovation allow us to drive that kind of cost out of the business. I mean there is certainly was an impact with pricing changes and you probably saw some of that in Q2 as well, but over the long-term that’s the model we follow.

Ron Josey

Great. Thank you.

Tom Szkutak

And with that, thank you joining us on the call today and for your questions. A replay will be available on investor relations website at least through the end of the quarter. We appreciate your interest in Amazon.com and look forward to talking with you again next quarter.