

AMAZON.CO.UK LIMITED

Report and Accounts

31 December 1999



Amazon.co.uk Limited

Registered No. 3223028

DIRECTORS

S Frazier
W Jenson
A Minshull-Beech
L M Wilson

SECRETARY

M Miller

AUDITORS

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

National Westminster Bank PLC
33 High Street
High Wycombe
Bucks HP11 2AJ

SOLICITORS

Cameron McKenna
Mitre House
160 Aldergate Street
London EC1A 4DD

REGISTERED OFFICE

Patriot Court
1-9 The Grove
Slough
Berkshire
SL1 1QP

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1999.

RESULTS AND DIVIDENDS

The loss for the year, after taxation amounts to £1,964,745 (18 month period ended 31 December 1998 – £3,375,336). The company did not declare a dividend during the year.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activities of the company for the period to 1 December 1999 were the marketing and selling of books via the internet and the provision of services to other group undertakings. From 1 December 1999 the principal activity of the company was the provision of services to other group undertakings.

The directors are satisfied with the result achieved for the year.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period ended 31 December 1999 were as follows:

L C Byrum	(appointed 1 September 1999; resigned 12 January 2000)
A Minshull-Beech	(appointed 4 November 1999)
S T Murdoch	(resigned 20 September 1999)
R S Bennetts	(resigned 27 September 1999)
L M Wilson	(appointed 27 September 1999)
W Jenson	(appointed 27 September 1999)
R Tinsley	(resigned 27 September 1999)
J Covey	(resigned 27 September 1999)
A Caplan	(resigned 27 September 1999)

On 24 February 2000, S Frazier was appointed as a director.

CREDITOR PAYMENT POLICY AND PRACTICE

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 1999, the company had an average of 59 days purchases outstanding in trade creditors.

YEAR 2000

The company has considered the issues and business risks resulting from the date change to the Year 2000. Management reviewed the significant software and equipment used in the company's operations and, to the extent practicable, in the operations of its key business partners. From the review certain measures designed to address the key risks were implemented with priority given to those systems, which could cause significant financial or legal impact on the company's business if they were to fail.

The company has not experienced any problems or system failures with the roll over into the Year 2000. All systems to date have continued to perform normally. Given the complexity of the issue, it is not possible for any organisation to guarantee that no Year 2000 problems remain. However, the directors do not anticipate problems arising.

DIRECTORS' REPORT

AUDITORS

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board

AT Mueser - Beech

Director

31 October 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Amazon.co.uk Limited

We have audited the accounts on pages 6 to 13, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

31 October 2001

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	<i>18 month</i>	
	<i>Year ended</i>	<i>period ended</i>
	<i>31 December</i>	<i>31 December</i>
	<i>1999</i>	<i>1998</i>
<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER		
Continuing operations	2,665,945	–
Discontinued operations	49,858,651	6,149,370
	3 52,524,596	6,149,370
Cost of sales	4 (41,545,804)	(5,331,091)
	4 10,978,792	818,279
Gross profit	4 (20,486,537)	(4,208,545)
Administrative expenses		
OPERATING PROFIT/(LOSS)		
Continuing operations	197,477	–
Discontinued operations	(9,705,222)	(3,390,266)
	5 (9,507,745)	(3,390,266)
Discontinued operations		
– Profit on sale of assets	7,400,000	–
Bank interest receivable	143,000	14,930
	(1,964,745)	(3,375,336)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		
Tax on loss on ordinary activities	6 –	–
	15 (1,964,745)	(3,375,336)
LOSS FOR THE PERIOD		

Turnover and operating losses are derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the loss of £1,964,745 for the year ended 31 December 1999 and a loss of £3,375,336 for the 18 month period ended 30 June 1997.

BALANCE SHEET

at 31 December 1999

		31 December 1999	31 December 1998
	Notes	£	Restated £
FIXED ASSETS	9	1,208,364	926,829
CURRENT ASSETS			
Stocks	10	—	1,093,521
Debtors	11	13,916,065	1,351,648
Cash at bank and in hand		9,912,809	2,224,928
		23,828,874	4,670,097
CREDITORS: amounts falling due within one year	12	(26,734,325)	(5,318,268)
NET CURRENT LIABILITIES		(2,905,451)	(648,171)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,697,087)	278,658
PROVISIONS FOR LIABILITIES AND CHARGES			
Dilapidations provision	13	—	(11,000)
		(1,697,087)	267,658
CAPITAL AND RESERVES			
Called up share capital	14	19,660	19,660
Profit and loss account	15	(5,383,967)	(3,419,222)
Other reserves	15	3,667,220	3,667,220
SHAREHOLDERS' FUNDS - EQUITY	15	(1,697,087)	267,658

The accounts were approved by the Board of Directors on 31/10/01 and signed on its behalf by:

Atkinson - Beech

Director

NOTES TO THE ACCOUNTS
at 31 December 1999

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting systems.

Statement of cash flows

A statement of cash flows is not prepared as the company is a wholly owned subsidiary (see note 18).

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Warehouse equipment	-	over 4 years
Office and computer equipment	-	over 2, 3 or 5 years
Leasehold improvements	-	over 3 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Goods for resale	-	purchase cost on a first-in, first-out-basis
Packing materials	-	purchase cost on a first-in, first-out basis

Net realisable value is based on estimated selling price less any costs of disposal.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

NOTES TO THE ACCOUNTS
at 31 December 1999

1. ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments (continued)

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

2. PRIOR YEAR ADJUSTMENT

A capital contribution of £3,667,220 made in the year ended 31 December 1998 was not disclosed in the Report and Accounts for the year ended 31 December 1999. These accounts have been restated to reflect this.

3. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and affiliated parties.

Turnover is attributable to the company's principal activities.

Turnover by geographical segment has not been disclosed because, in the opinion of the directors, it would be seriously prejudicial to the interests of the company to do so.

4. COST OF SALES AND OPERATING EXPENSES

	Year ended 31 December 1999			18 month period ended 31 December 1998		
	Continuing £	Discontinued £	Total £	Continuing £	Discontinued £	Total £
Cost of sales	2,468,468	39,077,336	41,545,804	–	5,331,091	5,331,091
Administrative Expenses	–	20,486,537	20,486,537	–	4,208,545	4,208,545

5. OPERATING LOSS

This is stated after charging/(crediting):

	Year ended 31 December 1999 £	18 month period ended 31 December 1998 £
Depreciation of owned fixed assets	738,417	191,018
Auditors' remuneration	24,000	14,000
Operating lease rentals – plant and machinery	246,754	26,566
– land and buildings	837,605	150,898
	<u>738,417</u>	<u>191,018</u>

NOTES TO THE ACCOUNTS
at 31 December 1999

6. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no corporation tax liability for the period due to loss incurred (31 December 1998 – £nil).

7. DIRECTORS' EMOLUMENTS

	<i>18 month period ended</i>	
	<i>31 December 1999</i>	<i>31 December 1998</i>
	£	£
Emoluments	59,753	122,337
Company contributions paid to money purchase pension schemes	–	–
	<u> </u>	<u> </u>
	<i>No.</i>	<i>No.</i>
Members of money purchase pension schemes	–	–
	<u> </u>	<u> </u>
The amounts in respect of the highest paid director are as follows:		
	£	£
Emoluments	45,597	61,274
Company contributions paid to money purchase pension schemes	–	–
	<u> </u>	<u> </u>

Two directors exercised share options during the year (including) the highest paid director.

8. STAFF COSTS

	<i>18 month period ended</i>	
	<i>31 December 1999</i>	<i>31 December 1998</i>
	£	£
Wages and salaries	4,975,050	835,331
Social security costs	516,355	78,816
	<u>5,491,405</u>	<u>914,147</u>

The monthly average number of employees during the period were as follows:

	<i>No.</i>	<i>No.</i>
Management and administration	82	6
Distribution and customer services	152	22
	<u>234</u>	<u>28</u>

NOTES TO THE ACCOUNTS
at 31 December 1999

9. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i>	<i>Office equipment</i>	<i>Computer equipment</i>	<i>Warehouse equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost:					
At 31 December 1998	344,157	189,590	432,954	151,136	1,117,837
Additions	190,837	541,450	1,159,604	133,260	2,025,151
Disposals	–	(279,071)	(614,500)	(280,457)	(1,174,028)
At 31 December 1999	534,994	451,969	978,058	3,939	1,968,960
Depreciation:					
At 31 December 1998	42,250	22,119	112,675	13,964	191,008
Charge during the period	171,655	131,061	389,525	46,176	738,417
Disposals	–	(20,191)	(89,145)	(59,493)	(168,829)
At 31 December 1999	213,905	132,989	413,055	647	760,596
Net book value:					
At 31 December 1999	321,089	318,980	565,003	3,292	1,208,364
At 30 June 1998	301,907	167,471	320,279	137,172	926,829

10. STOCKS

	<i>31 December 1999</i>	<i>31 December 1998</i>
	£	£
Goods for resale	–	1,034,077
Packing materials	–	59,444
	–	1,093,521

11. DEBTORS

	<i>31 December 1999</i>	<i>31 December 1998</i>
	£	£
Trade debtors	102,377	315,113
Prepayments and other debtors	1,697,011	1,013,757
Amounts due to fellow subsidiary undertakings	12,116,677	–
Amount due to parent undertaking	–	22,778
	13,916,065	1,351,648

NOTES TO THE ACCOUNTS
at 31 December 1999

12 CREDITORS: amounts falling due within one year

	31 December 1999	31 December 1998
	£	£
Trade creditors	9,311,971	3,885,815
Taxation and social security	2,580,694	75,310
Accruals and other creditors	4,075,743	1,357,143
Amounts owing to parent undertaking	9,565,640	—
Amounts due to fellow subsidiary undertakings	1,200,277	—
	<u>26,734,325</u>	<u>5,318,268</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

The movement in the dilapidation provision during the current year is as follows:

	1999 £
At 1 January	11,000
Charge for the period	(11,000)
At 31 December	<u>—</u>

14. SHARE CAPITAL

	1999 No.	1998 No.	Authorised 1999 No.	Authorised 1998 No.
Ordinary shares of £0.01 each	5,000,000	5,000,000	5,000,000	5,000,000

	1999 No.	1998 No.	Allotted, called up and fully paid 1999 £	Allotted, called up and fully paid 1998 £
Ordinary shares of £0.01 each	1,965,972	1,965,972	19,660	19,660

NOTES TO THE ACCOUNTS
at 31 December 1999

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Other reserves</i>	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	£	£	£	£
At 30 June 1997	–	6,000	(43,886)	(37,886)
Loss for the year	–	–	(3,375,336)	(3,375,336)
Proceeds from issue of shares	–	13,660	–	13,660
At 31 December 1998 as previously reported	–	19,660	(3,419,222)	(3,399,562)
Prior year adjustment (see note 2)	3,667,220	–	–	3,667,220
At 31 December 1998 as restated	3,667,220	19,660	(3,419,222)	267,658
<i>Profit/(loss) for the period</i>	–	–	(1,964,745)	(1,964,745)
At 31 December 1999	3,667,220	19,660	(5,383,967)	(1,697,087)

16. OTHER FINANCIAL COMMITMENTS

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	<i>Other</i>
	1999	1998
	£	£
Operating leases which expire:		
Within one year	1,446,500	–
In two to five years	1,445,000	338,500
	2,891,500	338,500

17. RELATED PARTY TRANSACTIONS

In accordance with the exemption stated in Financial Reporting Standard No. 8 no details are shown of related party transactions with the company's parent and fellow subsidiaries within the Amazon.com. Inc. group, as it holds 90% or more of the voting rights.

18. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's parent undertaking and controlling party is Amazon.com.Inc., a company incorporated in the United States of America. It has included the company in its group accounts, copies of which are available from its registered office, 1516 Second Avenue, Seattle, Washington, 98101 USA.