

Amazon.co.uk Limited

Report and Financial Statements

31 December 2002

ERNST & YOUNG



A49
COMPANIES HOUSE

AJ6TLQRU

0680
10/12/03

7

Directors

A Minshull-Beech
R Terrell
L M Wilson

Secretary

M Miller

Auditors

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1YE

Bankers

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London
EC2N 2DB

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 financial statements for the year ended 31 December 2002.

Results and dividends

The loss for the year, after taxation, amounted to £62,268. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year was the provision of services to other group undertakings.

On the 18 December 2002, the company transferred £8,135,175 from intercompany loans to a voluntary reserve as a non-repayable informal contribution to equity by Amazon.com Inc.

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

Disabled employees

All applications from disabled persons are fully considered. Should an employee become disabled, it is the group's practice to continue their current employment where possible or offer suitable alternatives. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee involvement

The group continues to place importance upon the education and development of its people. There is a well developed employee involvement programme within the group. All employees' training and development is supported by continuing in-service education.

Directors

The directors who served the company during the year were as follows:

A Minshull-Beech

R Terrell

L M Wilson

W Jenson

(Resigned 26 June 2002)

No directors held any interest in the shares of the company during the year.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

M Miller

Secretary

04 / 12 / 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements 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 year. In preparing those financial statements, 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 financial statements; and
- prepare the financial statements 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 financial statements 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.

Independent auditors' report to the members of Amazon.co.uk Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Independent auditors' report
to the members of Amazon.co.uk Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1YE

Ernst & Young LLP

8/12 2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover	2	27,384,533	21,946,841
Administrative expenses		27,506,042	21,748,525
Operating (loss)/profit	3	(121,509)	198,316
Bank interest receivable	6	130,288	8,674
Interest payable	7	(1,675)	—
		128,613	8,674
Profit on ordinary activities before taxation		7,104	206,990
Tax on profit on ordinary activities	8	69,372	479,377
Loss for the financial year		(62,268)	(272,387)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £62,268 attributable to the shareholders for the year ended 31 December 2002 (2001 - loss of £272,387).

Balance sheet

at 31 December 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	9	<u>1,497,862</u>	<u>2,237,028</u>
Current assets			
Debtors	10	9,775,070	10,111,406
Cash at bank		<u>2,508,109</u>	<u>1,211,000</u>
		12,283,179	11,322,406
Creditors: amounts falling due within one year	11	<u>7,832,596</u>	<u>15,683,896</u>
Net current assets/(liabilities)		<u>4,450,583</u>	<u>(4,361,490)</u>
Total assets less current liabilities		<u>5,948,445</u>	<u>(2,124,462)</u>
Capital and reserves			
Called up share capital	14	19,660	19,660
Other reserves	15	11,802,395	3,667,220
Profit and loss account	15	<u>(5,873,610)</u>	<u>(5,811,342)</u>
Equity shareholders' funds	15	<u>5,948,445</u>	<u>(2,124,462)</u>



Director

21/11/2003

Notes to the financial statements

at 31 December 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

The financial statements have been prepared on the going concern basis as the parent undertaking has agreed to provide continuing financial support to allow the company to meet its obligations as they fall due.

During the year the company implemented FRS 17 "Accounting for Pensions", FRS 18 "Accounting Policies" and FRS 19 "Accounting for Deferred Taxation". The implementation of these standards has not resulted in any adjustments to the statutory accounts.

Cash flow statement

A statement of cash flows is not prepared as the company is a wholly owned subsidiary (see note 16).

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

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

Leasehold Improvements	- Over 3 years
Office Equipment	- 2 - 5 years
Computer Equipment	- 2 years

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

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

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

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.

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.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. 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.

3. Operating (loss)/profit

This is stated after charging/(crediting):

	2002 £	2001 £
Auditors' remuneration - audit services	39,000	29,000
- non-audit services	105,695	62,307
	<u>144,695</u>	<u>91,307</u>
Depreciation of owned fixed assets	<u>899,731</u>	<u>1,203,307</u>
Operating lease rentals - land and buildings	1,445,000	1,445,000
- plant and machinery	89,383	59,771
Net loss on foreign currency translation	<u>147,719</u>	<u>23,838</u>

Notes to the financial statements

at 31 December 2002

4. Staff costs

	2002 £	2001 £
Wages and salaries	10,389,983	9,151,947
Social security costs	1,057,048	838,139
Other pension costs	178,415	217,639
	<u>11,625,446</u>	<u>10,207,725</u>

The monthly average number of employees during the year was as follows:

	2002 No.	2001 No.
Management and Administration Staff	<u>381</u>	<u>391</u>

5. Directors' emoluments

	2002 £	2001 £
Emoluments	<u>227,485</u>	<u>83,964</u>
Value of company pension contributions to money purchase schemes	<u>8,742</u>	<u>4,147</u>
	2002 No.	2001 No.
Members of money purchase pension schemes	<u>2</u>	<u>2</u>

The amounts in respect of the highest paid director are as follows:

	2002 £	2001 £
Emoluments	<u>129,505</u>	<u>68,750</u>
Value of company pension contributions to money purchase schemes	<u>5,167</u>	<u>3,438</u>

Certain Directors' emoluments have been borne by the parent company, Amazon.com Inc. These directors are also directors or officers of a number of the companies within the Amazon Group. These directors services to the company do not occupy a significant amount of their time. As such these directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 December 2001 and 31 December 2002.

6. Interest receivable

	2002 £	2001 £
Bank interest receivable	<u>130,288</u>	<u>8,674</u>

Notes to the financial statements

at 31 December 2002

7. Interest payable

	2002 £	2001 £
Bank interest payable	<u>1,675</u>	<u>—</u>

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2002 £	2001 £
<i>Current tax:</i>		
UK corporation tax	41,999	285,000
Tax under provided in previous years	<u>27,373</u>	<u>194,377</u>
Total current tax (note 8(b))	<u>69,372</u>	<u>479,377</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002 £	2001 £
Profit on ordinary activities before taxation	<u>7,104</u>	<u>206,990</u>
Profit on ordinary activities by rate of tax	2,132	62,097
Tax under provided in previous years	27,373	194,377
Deferred tax not provided for	(153,104)	15,086
Expenses not deductible for tax purposes	<u>192,971</u>	<u>207,817</u>
Total current tax (note 8(a))	<u>69,372</u>	<u>479,377</u>

(c) Deferred tax

The deferred taxation asset not recognised in the accounts is as follows:

	2002 £	2001 £
Capital allowances in advance of depreciation	324,643	204,640
Other timing differences	<u>295,926</u>	<u>332,166</u>
	<u>620,569</u>	<u>536,806</u>

Notes to the financial statements

at 31 December 2002

9. Tangible fixed assets

	<i>Leasehold Improvements</i>	<i>Office Equipment</i>	<i>Computer Equipment</i>	<i>Total</i>
	£	£	£	£
Cost:				
At 1 January 2002	2,206,339	1,225,957	884,178	4,316,474
Additions	210	33,562	127,355	161,127
Disposals	(210)	—	(462)	(672)
At 31 December 2002	2,206,339	1,259,519	1,011,071	4,476,929
Depreciation:				
At 1 January 2002	828,269	610,022	641,155	2,079,446
Provided during the year	433,386	225,080	241,265	899,731
Disposals	(17)	—	(93)	(110)
At 31 December 2002	1,261,638	835,102	882,327	2,979,067
Net book value:				
At 31 December 2002	944,701	424,417	128,744	1,497,862
At 1 January 2002	1,378,070	615,935	243,023	2,237,028

10. Debtors

	2002 £	2001 £
Trade debtors	51,778	—
Amounts owed by group undertakings	6,770,832	8,471,830
Corporation tax repayable	96,908	—
Other debtors	1,294,008	747,343
Prepayments and accrued income	1,561,544	892,233
	9,775,070	10,111,406

11. Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	1,522,730	1,412,861
Amounts owed to group undertakings	1,219,834	8,167,627
Corporation tax	—	310,862
Other taxation and social security	972,647	405,119
Accruals and deferred income	4,117,385	5,387,427
	7,832,596	15,683,896

Notes to the financial statements

at 31 December 2002

12. Commitments under operating leases

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	2002		2001	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£
Operating leases which expire:				
In two to five years	<u>1,445,000</u>	<u>107,900</u>	<u>1,445,000</u>	<u>144,550</u>

13. Related party transactions

In accordance with the exemption stated in FRS 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.

14. Share capital

	2002		2001	
	£		£	
Ordinary shares of £0.01 each		<u>50,000</u>		<u>50,000</u>
	<i>Allotted, called up and fully paid</i>			
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of £0.01 each	1,965,972	<u>19,660</u>	1,965,972	<u>19,660</u>

15. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Other Reserve</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	£	£	£	£
At 1 January 2001	19,660	3,667,220	(5,538,955)	(1,852,075)
Loss for the year	—	—	(272,387)	(272,387)
At 31 December 2001	<u>19,660</u>	<u>3,667,220</u>	<u>(5,811,342)</u>	<u>(2,124,462)</u>
Loss for the year	—	—	(62,268)	(62,268)
Other movements				
Transfers	—	8,135,175	—	8,135,175
At 31 December 2002	<u>19,660</u>	<u>11,802,395</u>	<u>(5,873,610)</u>	<u>5,948,445</u>

16. Ultimate parent company

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 financial statements, copies of which are available from its registered office, 1200 Twelfth Avenue, Seattle, Washington 98144, USA.