

# Amazon.co.uk Limited

## Report and Financial Statements

31 December 2003

 ERNST & YOUNG



Registered No: 3223028

**Directors**

A Minshull-Beech  
R Terrell  
L M Wilson  
A Lyall  
R Regan

**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 2003.

### Results and dividends

The profit for the year amounted to £6,630,671. The directors do not recommend the payment of any dividends.

### Principal activities

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

On 31 December 2003, the company acquired certain fixed assets and related liabilities of the parent company, representing the entire business and assets of the UK fulfilment centre operations, located at Marston Gate, Milton Keynes.

As a result of this transaction, the directors believe the principal activity of the company to have changed to be the operation of fulfilment centres on behalf of other group undertakings.

### Review of the business and future developments

The directors are satisfied with the results achieved for the year, and the future outlook for the company remains promising.

Subsequent to the year end, the company opened a second fulfilment centre at Faulds Park, Gourrock to support the continuing growth in operations of the group.

### 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

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

Subsequent to the year end, the following were appointed as directors of the company:

A Lyall (appointed 15 January 2004)  
R Regan (appointed 15 November 2004)

## Directors' report

### 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    Ryan Regan  
Secretary    Director

7<sup>th</sup> June 2005

## 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 period. 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 2003 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 2003 and of its profit 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

 2005

## Profit and loss account

for the year ended 31 December 2003

	Notes	2003 £	2002 £
<b>Turnover</b>	2	39,981,801	27,384,533
Administrative expenses		33,551,050	27,506,042
<b>Operating profit/(loss)</b>	3	6,430,751	(121,509)
Bank interest receivable	6	157,920	130,288
Interest payable and similar charges	7	-	(1,675)
		157,920	128,613
<b>Profit on ordinary activities before taxation</b>		6,588,671	7,104
Tax on profit on ordinary activities	8	(42,000)	69,372
<b>Profit retained/(loss) for the financial year</b>		6,630,671	(62,268)

## Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £6,630,671 attributable to the shareholders for the year ended 31 December 2003 (2002 - loss of £62,268).



**Balance sheet**

at 31 December 2003

	<i>Notes</i>	2003 £	2002 £
<b>Fixed assets</b>			
Tangible assets	9	13,444,727	1,497,862
<b>Current assets</b>			
Debtors	10	13,457,430	9,775,070
Cash at bank		8,102,860	2,508,109
		21,560,290	12,283,179
<b>Creditors:</b> amounts falling due within one year	11	13,079,525	7,832,596
<b>Net current assets</b>		8,480,765	4,450,583
<b>Total assets less current liabilities</b>		21,925,492	5,948,445
<b>Capital and reserves</b>			
Called up share capital	14	9,366,036	19,660
Other reserves	15	11,802,395	11,802,395
Profit and loss account	15	757,061	(5,873,610)
<b>Equity shareholders' funds</b>	15	21,925,492	5,948,445

*W. Nunnally-Beach*

Director

7 June 2005

## Notes to the financial statements

at 31 December 2003

### 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.

#### *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, 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
Plant & Machinery	-	10 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 2003

### 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 profit/(loss)

This is stated after charging/(crediting):

	2003 £	2002 £
Auditors' remuneration - audit services	34,725	39,000
- non-audit services	40,730	105,695
	<u>701,136</u>	<u>899,731</u>
Depreciation of owned fixed assets	701,136	899,731
Operating lease rentals - land and buildings	1,445,000	1,445,000
- plant and machinery	107,862	89,383
Net (profit)/loss on foreign currency translation	<u>(13,232)</u>	<u>147,719</u>

## Notes to the financial statements

at 31 December 2003

### 4. Staff costs

	2003 £	2002 £
Wages and salaries	10,991,084	10,389,983
Social security costs	1,200,134	1,057,048
Staff pension contributions	210,715	178,415
	<u>12,401,933</u>	<u>11,625,446</u>

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

	2003 No.	2002 No.
Management and Administration Staff	<u>379</u>	<u>381</u>

### 5. Directors' emoluments

	2003 £	2002 £
Emoluments	<u>194,547</u>	<u>227,485</u>
Value of company pension contributions to money purchase schemes	<u>9,331</u>	<u>8,742</u>

	2003 No.	2002 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:

	2003 £	2002 £
Emoluments	<u>108,961</u>	<u>129,505</u>
Value of company pension contributions to money purchase schemes	<u>5,437</u>	<u>5,167</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 2002 and 31 December 2003.

### 6. Interest receivable

	2003 £	2002 £
Bank interest receivable	<u>157,920</u>	<u>130,288</u>

## Notes to the financial statements

at 31 December 2003

### 7. Interest payable and similar charges

	2003 £	2002 £
Bank interest payable	–	1,675

### 8. Taxation on ordinary activities

(a) Tax on profit on ordinary activities  
The tax (credit)/charge is made up as follows:

	2003 £	2002 £
<i>Current tax:</i>		
UK corporation tax	–	41,999
Tax (over)/under provided in previous years	(42,000)	27,373
Total current tax (note 8(b))	(42,000)	69,372

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2002 - 30%). The differences are reconciled below:

	2003 £	2002 £
Profit on ordinary activities before taxation	6,588,671	7,104
Profit on ordinary activities by rate of tax	1,976,601	2,132
Tax under provided in previous years	(42,000)	27,373
Deferred tax not provided for	26,198	(153,104)
Permanent tax differences	(2,002,799)	192,971
Total current tax (note 8(a))	(42,000)	69,372

(c) Deferred tax

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

	2003 £	2002 £
Capital allowances in advance of depreciation	(331,950)	324,643
Tax losses available	413,106	–
Other timing differences	408,101	295,926
	489,257	620,569

## Notes to the financial statements

at 31 December 2003

### 9. Tangible fixed assets

	<i>Leasehold Improvements</i> £	<i>Plant &amp; Machinery</i> £	<i>Office Equipment</i> £	<i>Computer Equipment</i> £	<i>Total</i> £
Cost:					
At 1 January 2003	2,206,339	–	1,259,519	1,011,071	4,476,929
Additions	–	–	27,075	28,441	55,516
Transfers from parent undertaking	6,786,053	8,798,878	834,766	1,187,666	17,607,363
At 31 December 2003	<u>8,992,392</u>	<u>8,798,878</u>	<u>2,121,360</u>	<u>2,227,178</u>	<u>22,139,808</u>
Depreciation:					
At 1 January 2003	1,261,638	–	835,102	882,327	2,979,067
Provided during the year	433,369	–	190,079	77,688	701,136
Transfers from parent undertaking	1,362,367	2,121,887	413,326	1,117,298	5,014,878
At 31 December 2003	<u>3,057,374</u>	<u>2,121,887</u>	<u>1,438,507</u>	<u>2,077,313</u>	<u>8,695,081</u>
Net book value:					
At 31 December 2003	<u>5,935,018</u>	<u>6,676,991</u>	<u>682,853</u>	<u>149,865</u>	<u>13,444,727</u>
At 1 January 2003	<u>944,701</u>	<u>–</u>	<u>424,417</u>	<u>128,744</u>	<u>1,497,862</u>

On 31 December 2003, the company acquired certain fixed assets, employees and related liabilities of the parent company. The net book value of tangible fixed assets acquired was £12,592,485. The value of net current liabilities taken on as a result of this transaction was £3,246,109.

9,346,376 ordinary shares of £1 each, with an aggregate nominal value of £9,346,376 were issued fully paid as full consideration. The net book value of assets and liabilities transferred was equal to the consideration paid.

### 10. Debtors

	2003 £	2002 £
Trade debtors	–	51,778
Amounts owed by group undertakings	9,714,169	6,770,832
Corporation tax repayable	778,908	96,908
Other debtors	1,531,604	1,294,008
Prepayments and accrued income	1,432,749	1,561,544
	<u>13,457,430</u>	<u>9,775,070</u>

## Notes to the financial statements

at 31 December 2003

### 11. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	1,811,928	1,522,730
Amounts owed to group undertakings	1,637,380	1,219,834
Other taxation and social security	1,318,367	972,647
Accruals and deferred income	8,311,850	4,117,385
	<u>13,079,525</u>	<u>7,832,596</u>

### 12. Commitments under operating leases

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	2003		2002	
	<i>Land and buildings</i> £	<i>Other</i> £	<i>Land and buildings</i> £	<i>Other</i> £
Operating leases which expire:				
Within one year	1,083,750	16,460	–	–
In two to five years	–	58,482	1,445,000	107,900
In over five years	2,375,000	–	–	–
	<u>3,458,750</u>	<u>74,942</u>	<u>1,445,000</u>	<u>107,900</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

	2003 £		Authorised 2002 £	
Ordinary shares of £0.01 each	–			50,000
Ordinary shares of £1 each		40,000,000		–
		<u>40,000,000</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	19,660
Ordinary shares of £1 each	9,366,036	9,366,036	–	–
		<u>9,366,036</u>		<u>19,660</u>

## Notes to the financial statements

at 31 December 2003

### 14. Share capital (continued)

During the year the authorised share capital was increased by £39,950,000 with the creation of 39,500,000 ordinary shares of £1 each. The existing 5,000,000 ordinary shares of £0.01 each were consolidated into 50,000 ordinary shares of £1 each.

On 31 December 2003, the company acquired certain fixed assets, employees and related liabilities of the parent company. 9,346,376 ordinary shares of £1 each, with an aggregate nominal value of £9,346,376, were issued fully paid as full consideration. The net book value of assets and liabilities transferred was equal to the consideration paid.

### 15. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Other Reserve</i>	<i>Profit and loss</i>	<i>Total share-</i>
	£	£	account	holders' funds
			£	£
At 1 January 2002	19,660	3,667,220	(5,811,342)	(2,124,462)
Loss for the year	–	–	(62,268)	(62,268)
Other movements				
Transfers	–	8,135,175	–	8,135,175
At 31 December 2002	19,660	11,802,395	(5,873,610)	5,948,445
Profit for the year	–	–	6,630,671	6,630,671
Other movements				
New equity share capital subscribed	9,346,376	–	–	9,346,376
At 31 December 2003	<u>9,366,036</u>	<u>11,802,395</u>	<u>757,061</u>	<u>21,925,492</u>

On 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.

### 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.