

# Apple (UK) Limited

## Directors' report and financial statements

Year ended 29 September 2007

*Registered number 1591116*

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# Apple (UK) Limited

## Directors' report and financial statements

| <i>Contents</i>  | <i>Page</i> |
|--|-------------|
| Directors' report  | 1-3         |
| Statement of directors' responsibilities in respect of the Directors Report and the financial statements | 4           |
| Independent auditor's report to the members of Apple (UK) Limited  | 5-6         |
| Profit and loss account  | 7           |
| Statement of total recognised gains and losses   | 8           |
| Balance sheet  | 9           |
| Notes  | 10-23       |

# Apple (UK) Limited

## Directors' report

The directors present their annual report and audited financial statements for the year ended 29 September 2007

### **Principal activities and business review**

Apple (UK) Limited provides services to group companies. These services include sales support, marketing and technical support. As of 29 September 2007, the company had 254 employees resulting in a yearly average of 173 employees, which was an increase of 12% on the prior year. This growth was seen primarily in the sales support and marketing area.

On 3 November 2006 Apple (UK) Limited registered a branch office in The Russian Federation with the intention to provide sales support, marketing and other services to group companies trading with Russian customers. For the year ended 29 September 2007 the branch had no employees and made a start-up loss of £95,000 which is consolidated fully into the results of Apple (UK) Limited.

Apple (UK) Limited is a wholly owned subsidiary of Apple Inc, a company incorporated in California, United States of America and listed on the Nasdaq exchange. The Apple Inc Group of companies, referred to collectively as "Apple" design, manufacture and market

- Macintosh personal computers and related software, services and peripherals,
- Digital music players (iPod) and related accessories and services including the online sale of audio and video, and mobile phones (iPhone)

During 2007, Apple has continued to update its Mac line and applications. Apple also updated its popular iPod music players with a new iPod Nano, upgraded iPod Shuffle and classic models and introduced a totally new iPod in September, the iPod Touch.

Apple sells to education, consumer, creative professional, and business and government customers through a variety of direct and indirect distribution channels. Apple (UK) Limited's principal business is the provision of sales support and marketing services in connection with sales of Apple products in the UK market.

Sales of Apple products have been growing in recent years with Apple Inc recording a 24.3% growth in worldwide net revenue in Fiscal Year 2007 over Fiscal Year 2006. This strong performance in worldwide sales of Apple products is also reflected in the underlying sales of Apple products in the UK market and is therefore the basis for robust financial performance of Apple (UK) Limited.

The results of the company for the year ended 29 September 2007 as set out on page 7 are considered satisfactory.

### **Risks and uncertainties**

The risks and uncertainties faced by the business are those typical of the technology sector, but are mitigated by the historically strong financial performance of the company and its long standing reputation and tradition within the sector.

The directors consider the principal risks and uncertainties facing the company are

- margin reduction due to competition
- retaining key employees and succession planning
- a rising cost base
- a sharp down turn in individual and commercial spends

# Apple (UK) Limited

## Directors' report *(continued)*

### **Risks and uncertainties (continued)**

The directors believe that these risks are effectively managed through a strong focus on competition, on our cost base and on our key employees

### **Key performance indicators**

Key performance indicators that are focused on by management include

- Sales
- Margin
- Overheads
- New industry developments

Each of these indicators are monitored by local management against budget and against prior periods. The directors are satisfied with the performance of the company during the year with regard to the indicators above

### **Results**

The profit for the year after taxation amounted to £4,857,000 (2006 £26,394,000 profit)

### **Dividend**

No dividend was paid in the year (2006 £43,006,642)

### **Directors**

The directors who held office during the year were as follows

Georges Guyon de Chemilly

Peter Oppenheimer (also secretary since 11 May 2006)

Gary Wipfler

Tim Cook

### **Political and charitable contributions**

The company made no political contributions during the year (2006 £Nil). The company made no donations to charities during the year (2006 £3,000)

### **Post balance sheet events**

No important events affecting the company have taken place since the end of the financial year

### **Disclosure of information to the auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

# Apple (UK) Limited

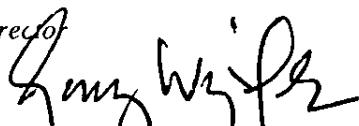
Directors' report *(continued)*

## **Election of the auditor**

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG will therefore continue in office

By order of the board

Director



Print

Gary Wipfler

Dated July 16, 2008

100 New Bridge Street  
London EC4V 6JA

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# Apple (UK) Limited

## Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities



**KPMG**  
**Chartered Accountants**  
1 Stokes Place  
St. Stephen's Green  
Dublin 2  
Ireland

## **Independent auditor's report to the members of Apple (UK) Limited**

We have audited the financial statements of Apple (UK) Limited for the year ended 29 September 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. These financial statements have been prepared under 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 auditor's 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 independent auditor**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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 auditor's report to the members of Apple (UK) Limited**  
*(continued)*

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 September 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*KPMG*

*Chartered Accountants  
Registered Auditor*

*23 JULY 2008*



# Apple (UK) Limited

## Profit and loss account

for the year ended 29 September 2007

|  | <i>Note</i> | <b>2007</b><br><b>£'000</b> | <b>2006</b><br><b>£'000</b><br>(as restated) |
|--|-------------|-----------------------------|--|
| <b>Turnover – continuing operations</b>              | 2           | <b>27,411</b>               | 24,216                                       |
|  |             | —                           | —  |
| <b>Gross profit</b>                                  |             | <b>27,411</b>               | 24,216                                       |
| Distribution costs                                   |             | (211)                       | (282)  |
| Administrative expenses                              | 8           | (20,688)                    | (17,916)                                     |
|  |             | —                           | —  |
| <b>Operating profit – continuing operations</b>      | 3           | <b>6,512</b>                | 6,018  |
| Income from participating interests                  |             | -                           | 28,972                                       |
| Interest receivable and similar income               | 6           | 370                         | 707  |
| Interest payable & similar charges                   | 7           | (13)                        | (92)   |
|  |             | —                           | —  |
| <b>Profit on ordinary activities before taxation</b> |             | <b>6,869</b>                | 35,605                                       |
| Tax on profit on ordinary activities                 | 9           | (2,012)                     | (9,211)                                      |
|  |             | —                           | —  |
| <b>Profit for the financial year</b>                 | 18          | <b>4,857</b>                | 26,394                                       |
|  |             | —                           | —  |

# Apple (UK) Limited

## Statement of total recognised gains and losses for the year ended 29 September 2007

|  | 2007<br>£'000       | 2006<br>£'000<br>(as restated) |
|--|---------------------|--------------------------------|
| <b>Profit for the year - (Includes share based payments charge)</b>      | <b>4,857</b>        | 26,394                         |
| Other recognised gains and losses  | -                   | -                              |
| Total recognised gains and losses  | <u>4,857</u>        | <u>26,394</u>                  |
| Prior year adjustment (note 14)  | <u>(144)</u>        |                                |
| <b>Total recognised gains and losses since last financial statements</b> | <b><u>4,713</u></b> |                                |

# Apple (UK) Limited

## Balance Sheet

for the year ended 29 September 2007

|   | <i>Note</i> | 2007<br>£'000  | 2006<br>£'000<br>(as restated) |
|---|-------------|----------------|--------------------------------|
| <b>Fixed assets</b>                                   |             |                |                                |
| Tangible assets                                       | <i>10</i>   | 683            | 738                            |
| Investments   | <i>11</i>   | 3,715          | 3,715                          |
|   |             | <u>4,398</u>   | <u>4,453</u>                   |
| <b>Current assets</b>                                 |             |                |                                |
| Debtors   | <i>12</i>   | 17,920         | 11,999                         |
| Cash at bank and in hand                              |             | 1,280          | 3,833                          |
|   |             | <u>19,200</u>  | <u>15,832</u>                  |
| <b>Creditors: amounts falling due within one year</b> | <i>13</i>   | <b>(4,163)</b> | <b>(7,165)</b>                 |
|   |             | <u>15,037</u>  | <u>8,667</u>                   |
| <b>Total assets less current liabilities</b>          |             | <b>19,435</b>  | <b>13,120</b>                  |
| <b>Provision for liabilities</b>                      | <i>14</i>   | <b>(916)</b>   | <b>(849)</b>                   |
|   |             | <u>18,519</u>  | <u>12,271</u>                  |
| <b>Net assets</b>                                     |             | <b>18,519</b>  | <b>12,271</b>                  |
| <b>Capital and reserves</b>                           |             |                |                                |
| Called up share capital                               | <i>17</i>   | 1,000          | 1,000                          |
| Profit and loss account                               | <i>18</i>   | 15,647         | 10,790                         |
| Capital contribution reserve                          | <i>19</i>   | 1,872          | 481                            |
|   |             | <u>18,519</u>  | <u>12,271</u>                  |
| <b>Shareholders' funds – equity</b>                   | <i>20</i>   | <b>18,519</b>  | <b>12,271</b>                  |

These financial statements were approved by the board of directors on and were signed on its behalf by

Director

Print

*Gary Wippler*  
Gary Wippler

Dated

*July 16, 2008*

100 New Bridge Street  
London EC4V 6JA

# Apple (UK) Limited

Notes forming part of the financial statements

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below

The company adopted Financial Reporting Standard 20, *Share Based Payments*, in these financial statements for the first time and the disclosures it requires have been presented for both the current and comparative period

### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

### *Cashflow*

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

### *Related party transactions*

As the company is a wholly owned subsidiary of Apple Inc the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties)

The consolidated financial statements of Apple Inc, within which the results of this company are included, can be obtained from the address given in the notes to the accounts

### *Investments*

Investments are valued at cost, less any charge for impairment

### *Fixed assets & depreciation*

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows

|                       |                                  |
|-----------------------|----------------------------------|
| Office equipment      | 20% straight line                |
| Leasehold improvement | lesser of 10 years or lease term |
| Apple own use         | 33% - 100% straight line         |

# Apple (UK) Limited

Notes (continued)

## 1 Accounting policies (continued)

### *Taxation*

Current tax is provided on the company's taxable profits, at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

### *Foreign currencies*

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account

### *Pensions*

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

### *Operating leases*

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease

### *Turnover*

The company earns commission income under commission agent agreements in place with related group undertakings. Commission receivable for the provision of services to group companies is recognised when earned

# Apple (UK) Limited

Notes (continued)

## 1 Accounting policies (continued)

### *Equity settled share based payment transactions*

The Apple share schemes allow employees to acquire shares in Apple Inc. They are all equity settled. The fair value of share entitlements granted is recognised as an employee expense in the profit and loss account with a corresponding increase in a capital contribution reserve. Apple Inc. uses the Black-Scholes-Merton (BSM) option-pricing model to calculate the fair value. Share entitlements granted by Apple Inc. are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for the share entitlements shown in the profit and loss account is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods ratably over the vesting period. The cumulative charge to the profit and loss account is only reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the company before the end of the vesting period.

## 2 Turnover

As permitted by paragraph 55(5) of Schedule 4 to the Companies Act 1985, turnover is not analysed as in the opinion of the directors the disclosure of this information would be seriously prejudicial to the interests of the company.

## 3 Operating profit

|  | 2007<br>£'000     | 2006<br>£'000     |
|--|-------------------|-------------------|
| <i>Operating profit is stated after charging</i> |                   |                   |
| Auditor's remuneration                           |                   |                   |
| - audit  | 15                | 15                |
| Depreciation                                     | 199               | 407               |
| Hire of plant and machinery                      |                   |                   |
| - rentals under operating leases                 | 232               | 302               |
| Other operating lease rentals                    | 1,311             | 1,311             |
| Loss on disposal of tangible fixed assets        | 47                | 4                 |
|  | <u>          </u> | <u>          </u> |

## 4 Remuneration of directors

|  | 2007<br>£'000     | 2006<br>£'000     |
|--|-------------------|-------------------|
| Emoluments (including pension contributions) | -                 | -                 |
|  | <u>          </u> | <u>          </u> |

Two directors exercised share options in Apple Inc. during the year (2006: 4)

# Apple (UK) Limited

Notes (continued)

## 5 Staff numbers and costs

The average weekly number of employees during the year was 173 (2006 155) and is analysed into the following categories

|                        | 2007<br>Number | 2006<br>Number |
|------------------------|----------------|----------------|
| Sales/Marketing        | 109            | 104            |
| Finance/Administration | 29             | 20             |
| Technical              | <u>35</u>      | <u>31</u>      |
|                        | <u>173</u>     | <u>155</u>     |

Staff costs can be analysed as follows,

|                       | 2007<br>£'000 | 2006<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 10,235        | 8,342         |
| Social security costs | 1,417         | 1,716         |
| Other pension costs   | 299           | 254           |
| Share based payments  | 1,391         | 481           |
|                       | <u>13,342</u> | <u>10,793</u> |

## 6 Interest receivable and similar income

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Bank interest receivable                    | 285           | 196           |
| Interest from loans to related undertakings | 59            | 482           |
| Other                                       | <u>26</u>     | <u>29</u>     |
|   | <u>370</u>    | <u>707</u>    |

## 7 Interest payable & similar charges

|                       | 2007<br>£'000 | 2006<br>£'000 |
|-----------------------|---------------|---------------|
| Bank charges and fees | 4             | 85            |
| Other                 | <u>9</u>      | <u>7</u>      |
|                       | <u>13</u>     | <u>92</u>     |

# Apple (UK) Limited

Notes (continued)

## 8 Share-based payments

Apple Inc , has two share option schemes in operation for Apple (UK) Limited employees and executives of the company (the “2003 Employee Stock Plan” and the “Employee Stock Purchase Plan”) Details of the respective plans are out lined below

The 2003 Employee Stock Plan (the “2003 Plan”) is a shareholder approved plan that provides for broad-based grants to employees, including executive officers Based on the terms of individual option grants, options granted under the 2003 Plan generally expire 7 to 10 years after the grant date and generally become exercisable over a period of four years, based on continued employment, with either annual or quarterly vesting The 2003 Plan permits the granting of incentive stock options, non-statutory stock options, restricted stock units, stock appreciation rights, stock purchase rights and performance-based awards The company has a shareholder approved employee stock purchase plan (the “Purchase Plan”), under which substantially all employees may purchase common stock through payroll deductions at a price equal to 85% of the lower of the fair market values as of the beginning and end of six-month offering periods Stock purchases under the Purchase Plan are limited to 10% of an employee's compensation, up to a maximum of USD 25,000 in any calendar year

As grants of share options have occurred since 7 November 2002, which have not vested by 1 January 2006, the recognition and measurement principles of FRS 20 have been applied by the company in the current year The terms and conditions of each grant is as follows, all options are to be settled by physical delivery of shares

| Grant date / entitled employees | Number of instruments in thousands | Vesting conditions   | Contractual life of options |
|---------------------------------|------------------------------------|----------------------|-----------------------------|
| Options Granted in 2001         | 512                                | 1 to 4 years service | 7-10 Years                  |
| Options Granted in 2002         | 170                                | 1 to 4 years service | 7-10 Years                  |
| Options Granted in 2003         | 5                                  | 1 to 4 years service | 7-10 Years                  |
| Options Granted in 2004         | 88                                 | 1 to 4 years service | 7-10 Years                  |
| Options Granted in 2005         | 46                                 | 1 to 4 years service | 7-10 Years                  |
| Options Granted in 2006         | 23                                 | 1 to 4 years service | 7-10 Years                  |
| Options Granted in 2007         | 116                                | 1 to 4 years service | 7-10 Years                  |
| <b>Total share options</b>      | <b>960</b>                         |                      |                             |



# Apple (UK) Limited

Notes (continued)

## 8 Share-based payments (continued)

The number and weighted average exercise price is as follows

|                                  | Weighted<br>average price<br>2007<br>USD | Number<br>of options<br>2007<br>'000 | Weighted<br>average price<br>2006<br>USD | Number<br>of options<br>2006<br>'000 |
|----------------------------------|--|--------------------------------------|--|--------------------------------------|
| Outstanding at 1 October 2006    | 35.74                                    | 117                                  | 24.07                                    | 128                                  |
| Forfeited during the period      | 89.83                                    | (4)                                  | 41.72                                    | (2)                                  |
| Exercised during the period      | 32.62                                    | (26)                                 | 11.67                                    | (32)                                 |
| Granted during the period        | 89.81                                    | 116                                  | 68.37                                    | 23                                   |
|                                  | <hr/>                                    | <hr/>                                | <hr/>                                    | <hr/>                                |
| Outstanding at 29 September 2007 | 66.06                                    | 203                                  | 35.74                                    | 117                                  |
|                                  | <hr/>                                    | <hr/>                                | <hr/>                                    | <hr/>                                |
| Exercisable at 29 September 2007 | 40.75                                    | 69                                   | 17.85                                    | 5                                    |

The options outstanding at 29 September 2007 have an exercise price of USD 66.06 and a weighted average contractual life of 5 years

Apple Inc. uses the Black-Scholes-Merton (BSM) option-pricing model to calculate the fair value of stock-based awards. The BSM option-pricing model incorporates various assumptions including expected volatility, expected life, and interest rates. The expected volatility is based on the historical volatility of Apple Inc.'s common stock over the most recent period commensurate with the estimated expected life of Apple Inc.'s stock options and other relevant factors including implied volatility in market traded options on Apple Inc.'s common stock. Apple Inc. bases its expected life assumption on its historical experience and on the terms and conditions of the stock awards it grants to employees. Stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the BSM option-pricing model and is recognized as expense ratably on a front loaded basis over the requisite service period.

The weighted average assumptions used for 2007 and 2006 and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases during those periods are as follows

|  | 2007       | 2006       |
|--|------------|------------|
| Expected life of stock options                                 | 3.46 years | 3.56 years |
| Expected life of stock purchases                               | 6 months   | 6 months   |
| Interest rate - stock options                                  | 4.61%      | 4.60%      |
| Interest rate - stock purchases                                | 5.13%      | 4.29%      |
| Volatility - stock options                                     | 38.13%     | 40.34%     |
| Volatility - stock purchases                                   | 39.22%     | 39.56%     |
| Dividend yields  | -          | -          |
| Weighted-average fair value of options granted during the year | \$31.86    | \$23.16    |
| Weighted-average fair value of stock purchases during the year | \$20.90    | \$14.06    |

# Apple (UK) Limited

Notes (continued)

## 8 Share-based payments (continued)

| Employee expenses (Note 5)                            | 2007<br>\$'000 | 2006<br>\$'000 |
|---|----------------|----------------|
| Share options granted prior to 24 September 2005      | 255            | 399            |
| Share options granted in year ended 30 September 2006 | 304            | 476            |
| Share options granted in year ended 29 September 2007 | 2,195          | -              |
| <b>Total employee cost (USD)</b>                      | <b>2,754</b>   | <b>875</b>     |
|   | <b>£'000</b>   | <b>£'000</b>   |
| <b>Total employee cost (GBP)</b>                      | <b>1,391</b>   | <b>481</b>     |

2007 expense charge was converted from USD to GBP at \$1 9793 £1 (2006 \$1 8207 £1)

## 9 Tax on profit on ordinary activities

### (a) Analysis of tax charge

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| UK Corporation tax (note 9 (b))             | 2,044         | 9,336         |
| <b>Total current tax charge</b>             | <b>2,044</b>  | <b>9,336</b>  |
| Deferred tax (note 12)                      | (32)          | (125)         |
| <b>Tax on profit on ordinary activities</b> | <b>2,012</b>  | <b>9,211</b>  |

# Apple (UK) Limited

Notes (continued)

## 9 Tax on profit on ordinary activities (continued)

### (b) Factors affecting tax charge for year

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below

#### Current tax reconciliation

|   | 2007<br>£'000       | 2006<br>£'000<br>(as restated) |
|---|---------------------|--------------------------------|
| Profit on ordinary activities before tax                | 6,869               | 35,605                         |
| Taxation charge at UK corporation tax rate of 30%       | <u>2,061</u>        | <u>10,682</u>                  |
| Effects of  |                     |                                |
| Expenses not deductible for tax purposes                | 417                 | 144                            |
| Depreciation for period in excess of capital allowances | (1)                 | 50                             |
| Permanent timing differences                            | (433)               | (1,384)                        |
| Adjustment in respect of prior years                    | -                   | (156)                          |
| <b>Total current tax charge</b>                         | <u><u>2,044</u></u> | <u><u>9,336</u></u>            |

# Apple (UK) Limited

Notes (continued)

## 10 Tangible fixed assets

|                       | Leasehold<br>improvement<br>£'000 | Office<br>equipment<br>£'000 | Apple<br>own use<br>£'000 | Total<br>£'000 |
|-----------------------|-----------------------------------|------------------------------|---------------------------|----------------|
| <i>Cost</i>           |                                   |                              |                           |                |
| At beginning of year  | 1,383                             | 864                          | 241                       | 2,488          |
| Additions             | 36                                | 79                           | 76                        | 191            |
| Disposals             | (421)                             | (643)                        | (74)                      | (1,138)        |
|                       | -----                             | -----                        | -----                     | -----          |
| At end of year        | 998                               | 300                          | 243                       | 1,541          |
|                       | =====                             | =====                        | =====                     | =====          |
| <i>Depreciation</i>   |                                   |                              |                           |                |
| At beginning of year  | 723                               | 788                          | 239                       | 1,750          |
| Charge for year       | 91                                | 30                           | 78                        | 199            |
| Disposals             | (374)                             | (643)                        | (74)                      | (1,091)        |
|                       | -----                             | -----                        | -----                     | -----          |
| At end of year        | 440                               | 175                          | 243                       | 858            |
|                       | =====                             | =====                        | =====                     | =====          |
| <i>Net book value</i> |                                   |                              |                           |                |
| At 29 September 2007  | 558                               | 125                          | -                         | 683            |
|                       | -----                             | -----                        | -----                     | -----          |
| At 30 September 2006  | 660                               | 76                           | 2                         | 738            |
|                       | =====                             | =====                        | =====                     | =====          |

There is £48,000 of construction in progress held within the leasehold improvements cost figure of £998,000

All of the construction in progress is related to leasehold improvements

## 11 Investments

|                                   | Share in group<br>undertakings<br>£'000 |
|-----------------------------------|---|
| Cost at beginning and end of year | 3,715                                   |
|                                   | =====                                   |

The above investment represents 3.58% of ordinary share capital of Apple Operations International, a company incorporated in the Republic of Ireland. In the opinion of the directors, the investment in Apple Operations International is worth at least the amount at which it is stated in the balance sheet.

# Apple (UK) Limited

Notes (continued)

## 12 Debtors

### Debtors due within one year:

|                                    | 2007          | 2006          |
|------------------------------------|---------------|---------------|
|                                    | £'000         | £'000         |
| Amounts owed by Group undertakings | 10,061        | 10,500        |
| Loans to related undertakings      | 6,559         | -             |
| Other debtors and prepayments      | 454           | 699           |
| Deferred tax asset                 | 308           | 276           |
|                                    | <u>17,382</u> | <u>11,475</u> |

### Debtors due after more than one year:

|                                    |               |               |
|------------------------------------|---------------|---------------|
| Amounts owed by Group undertakings | 538           | 524           |
|                                    | <u>17,920</u> | <u>11,999</u> |

The loans to related undertakings are interest bearing. The amounts owed by related undertakings are non-interest bearing. In general balances are settled every quarter.

The company has a recognised deferred tax asset of £308,000 (2006 £276,000) arising from the excess of depreciation over capital allowances, a provision taken on the leasehold retirement obligation plus a provision taken by the Russian branch on the first years trading loss.

### Deferred tax

|                                 | 2007       | 2006       |
|---------------------------------|------------|------------|
|                                 | £'000      | £'000      |
| Accelerated capital allowances  | 162        | 174        |
| Leasehold retirement obligation | 114        | 102        |
| Trading loss of Russian Branch  | 32         | -          |
|                                 | <u>308</u> | <u>276</u> |

# Apple (UK) Limited

Notes (continued)

## 13 Creditors: amounts falling due within one year

|                                    | 2007<br>£'000 | 2006<br>£'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to Group undertakings | 1,033         | 696           |
| Trade creditors                    | 850           | 721           |
| Social security                    | 338           | 495           |
| Accruals                           | 1,102         | 795           |
| Corporation tax payable            | 840           | 4,458         |
|                                    | <u>4,163</u>  | <u>7,165</u>  |

The amounts owed to related undertakings are non-interest bearing. In general balances are settled every quarter.

## 14 Provision for liabilities

|                             | 2007<br>£'000 | 2006<br>£'000 |
|-----------------------------|---------------|---------------|
| Asset retirement obligation | 916           | 849           |
|                             | <u>916</u>    | <u>849</u>    |

The provision for liabilities is in respect of an asset retirement obligation whereby the company has an obligation to restore its leased premises to its original condition on vacation of the premises at the end of the lease in 2017. The company has provided for expected future costs of £1,583,000 in this regard and has discounted them at a rate of 5.83% to net present value.

## 15 Dividends

The aggregate amount of dividends comprise

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Interim dividends paid in respect of prior year | -             | 43,006        |
|   | <u>-</u>      | <u>43,006</u> |

In 2006 the Company paid dividends amounting to £43,006,642 (£43.01 per share) to Apple Inc.

# Apple (UK) Limited

Notes (continued)

## 16 Prior year adjustments

The company has adopted the requirements of FRS 20, Share Based Payments for the first time in the current financial year. The standard requires the fair value of share entitlements granted by Apple Inc to participating employees of the company to be recognised as an expense in the profit and loss account with a corresponding increase in equity. The adoption of the standard gives rise to a prior year adjustment with an additional employee expense of £481,000. Under the company service agreement with Apple Sales International, an amount of £481,000 was recharged to Apple Sales International in respect of this additional employee expense. A tax expense of £144,000 has been incurred by the company as a result of the prior year adjustment. All adjustments are being recognised in the year ended 29 September 2007. A corresponding Capital contribution has been recognised from the company's ultimate parent in this regard.

## 17 Called up share capital

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| <i>Authorised, called up and fully paid</i><br>1,000,000 ordinary shares of £1 each | 1,000         | 1,000         |

## 18 Reconciliation of profit and loss reserves

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Opening profit and loss reserve as originally reported | 10,934        | 27,402        |
| Prior year adjustment (Note 16)                        | (144)         | -             |
| Opening profit and loss account reserve as restated    | 10,790        | 27,402        |
| Total recognised gains and losses for year             | 4,857         | 26,394        |
| Dividends  | -             | (43,006)      |
| Profit and loss account reserve at end of year         | 15,647        | 10,790        |

## 19 Capital contribution reserve

|                                  | 2007<br>£'000 | 2006<br>£'000 |
|----------------------------------|---------------|---------------|
| At beginning of year             | 481           | -             |
| Capital contribution during year | 1,391         | 481           |
| At end of year                   | 1,872         | 481           |

# Apple (UK) Limited

Notes (continued)

| <b>20 Reconciliation of movement in shareholders' funds</b> | <b>2007</b>   | <b>2006</b>   |
|---|---------------|---------------|
|   | <b>£'000</b>  | <b>£'000</b>  |
| Opening shareholders' funds as originally reported          | 11,934        | 28,402        |
| Prior year adjustment (Note 16)                             | (144)         | -             |
| Capital contribution relating to prior years (Note 19)      | 481           | -             |
|   | <hr/>         | <hr/>         |
| Opening shareholders' funds as restated                     | 12,271        | 28,402        |
| Total recognised gains and losses for year                  | 4,857         | 26,394        |
| Dividends   | -             | (43,006)      |
| Capital contribution during year (Note 19)                  | 1,391         | 481           |
|   | <hr/>         | <hr/>         |
| <b>Closing shareholders' funds</b>                          | <b>18,519</b> | <b>12,271</b> |
|   | <hr/> <hr/>   | <hr/> <hr/>   |

## 21 Pension scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independent administered fund. The pension costs charged for the period represents contributions payable by the company to the scheme and amounted to £298,958 (2006 £254,395). The liability outstanding at year end was £nil (2006 £nil).

## 22 Commitments

### *Capital commitments*

There were no capital commitments at 29 September 2007 (2006 £Nil)

### *Lease commitments*

The annual commitments under non-cancellable operating leases at 29 September 2007 are as follows

|                               | 2007        |             | 2006        |             |
|-------------------------------|-------------|-------------|-------------|-------------|
|                               | Buildings   | Other       | Buildings   | Other       |
|                               | £'000       | £'000       | £'000       | £'000       |
| Operating leases which expire |             |             |             |             |
| - within one year             | -           | 38          | -           | 16          |
| - in the second to fifth year | -           | 172         | -           | 164         |
| - over five years             | 1,311       | -           | 1,311       | -           |
|                               | <hr/>       | <hr/>       | <hr/>       | <hr/>       |
|                               | 1,311       | 210         | 1,311       | 180         |
|                               | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

### *Guarantees*

The company has issued a guarantee in favour of HM Customs & Excise in the amount of £100,000



# Apple (UK) Limited

## Notes *(continued)*

### **23 Ultimate parent company and parent undertaking of larger group of which the company is a member**

Apple Inc , a company incorporated in California, United States of America, is the ultimate parent undertaking and controlling party and is both the smallest and largest undertaking into which the results of Apple (UK) Limited are consolidated

Copies of Apple Inc , accounts may be obtained from

1 Infinite Loop  
Cupertino  
CA 95014  
USA

### **24 Post Balance Sheet Event**

No important events affecting the company have taken place since the end of the financial year

### **25 Approval of financial statements**

The directors' approved the financial statements on *July 16, 2008*