Apple Retail UK Limited

Directors' report and financial statements

Year ended 30 September 2006

Registered number 4996702

Apple Retail UK Limited

Directors' report and financial statements

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Apple Retail UK Limited

Directors' report

The directors present their directors' report and financial statements for the year ended 30 September 2006

Principal activities, business review and future developments

The Company's principal activity is the sale of computer equipment, electrical goods and the provision of ancillary services through its retail stores located in the UK Following the opening of four new retail stores during 2006 the number of stores open as at 30 September 2006 was seven stores comparing to three stores as at 24th September 2005 Since September 30, 2006, two additional stores have been opened for a total of nine stores opened in the United Kingdom as at June 2007

Turnover was £109m as at 30 September 2006 from £62m as at 24 September 2005 Administrative expenses were £25m as at 30 September 2006 from £13m as at 24 September 2005 Loss on ordinary activities before tax for the financial year was £829,435 as at 30 September 2006 from a loss of £388,778 as at 24 September 2005 The loss for the year is due to the company's continued investment in new stores during the period, and continued investment in staff to provide excellent customer experience and service vision for our industry-leading store traffic We will continue to open stores at a measured pace and are very selective with real estate, and remain confident in our retail stores

The risks and uncertainties faced by the business are those typical of the retail sector
The Company has invested substantially in equipment and leasehold improvements, information systems, and personnel In addition, the Company has also entered into substantial operating lease commitments for retail space with lease terms ranging from 10 to 15 years, the majority of which are for 15 years

Should the Company choose to terminate these commitments or close individual stores, then the Company could incur substantial costs Such costs could adversely affect the Company's results of operations and financial condition Additionally, a relatively high proportion of the stores costs are fixed because of personnel costs, depreciation of store construction costs, and lease expense As a result, significant losses would result should the stores experience a significant decline in sales for any reason

Potential risks and uncertainties unique to retail operations that could have an adverse impact on the Retail segment include, among other things, macro-economic factors that have a negative impact on general retail activity, inability to manage costs associated with store construction and operation, inability to sell third-party hardware and software products at adequate margins, and inability to obtain and renew leases in quality retail locations at a reasonable cost

Post balance sheet events

Subsequent to 30 September 2006, the company opened two new retail stores

Results and dividends

The loss for the year after taxation amounted to £1,757,000 *(2005 £545,000 loss)* The directors do not recommend the payment of a dividend *(2005 £nil)*

Apple Retail UK Limited

Directors' report *(continued)*

Directors, secretary and their interests

The directors who held office during the year were as follows

Tim Cook, (on 12 May 2006 appointed as a director)
Nancy Heinen, (on 12 May 2006 resigned as a director)
Gary Wipfler
Peter Oppenheimer (replaced Nancy Heinen as secretary on 11 May 2006)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company The interests of the directors in other group companies are disclosed in the annual reports of the parent company

Political and charitable contributions

The company made no political contributions during the year *(2005 £Nil)* Donations to UK charities amounted to £nil *(2005 £Nil)*

Disclosure of information to auditors

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 auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

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

By order of the board

Director

18th July 2007

100 New Bridge Street
London EC4V 6JA

Apple Retail 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 period 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 books of account 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 Acts 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
90 South Mall
Cork
Ireland

Independent auditors' report to the members of Apple Retail UK Limited

We have audited the financial statements of Apple Retail UK Limited for the year ended 30 September 2006 which comprise the Profit and Loss Account, 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 auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 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 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

KPMG

KPMG
Chartered Accountants
90 South Mall
Cork
Ireland

Independent auditors' report to the members of Apple Retail UK Limited

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 30 September 2006 and of its loss for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985

KPMG

Chartered Accountants
Registered Auditor

18 July 2007

Apple Retail UK Limited

Profit and loss account
for the year ended 30 September 2006

	Note	2006 £'000	2005 £'000
Turnover – continuing operations	2	**109,267**	61,767
Cost of sales		**(86,273)**	(49,304)
Gross profit – continuing operations		**22,993**	12,463
Distribution costs		**(53)**	(48)
Administrative expenses		**(24,660)**	(13,401)
Operating loss – continuing operations	3	**(1,719)**	(986)
Other interest receivable and similar income	6	**990**	615
Interest payable and similar charges	7	**(100)**	(18)
Loss on ordinary activities before taxation		**(829)**	(389)
Tax on loss on ordinary activities	8	**(928)**	(156)
Loss for the financial year		**(1,757)**	(545)

All results relate to continuing operations There were no other recognised gains or losses other than those shown above

Apple Retail UK Limited

Balance sheet
at 30 September 2006

	Note	**2006** **£'000**	2005 £'000
Fixed assets			
Tangible assets	*9*	**24,804**	16,214
Current assets			
Stock	*10*	**8,021**	4,352
Debtors	*11*	**4,548**	2,676
Cash at bank and in hand		**29,230**	11,682
		41,799	18,710
Creditors: amounts falling due within one year	*12*	**(68,081)**	(35,666)
Net current liabilities		**(26,282)**	(16,956)
Total assets less current liabilities		**(1,478)**	(742)
Provision for liabilities and charges	*13*	**(1,187)**	(166)
Net liabilities		**(2,665)**	(908)
Capital and reserves			
Called up share capital	*14*	**1**	1
Profit and loss account	*15*	**(2,666)**	(909)
Shareholders' deficit – equity	*15*	**(2,665)**	(908)

These financial statements were approved by the board of directors on 18/7/07 and were signed on its behalf by

Director

Apple Retail 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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules and comply with the financial reporting standards of the Accounting Standards Board

Cashflow Statement

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 Details of the availability of the parent consolidated financial statement are set out in note 18

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)

Tangible Fixed assets

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
Machinery & equipment	20% straight line
Leasehold improvements	10% straight line
Apple own use	100% straight line

Provison is made for impairments of tangible fixed assets below their carrying amounts

The capital costs associated with capital projects, are accumulated in a "Construction In Progress" (CIP) account until the project is placed in service When a capital project is placed in service, the fixed assets are transferred from the Construction-In-Progress account to the appropriate capital asset accounts

Apple Retail 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 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

Stock

Stocks and work in progress are valued on a first in first out basis at the lower of cost and net realisable value Net realisable value is based on normal selling price, less further costs expected to be incurred to completion and disposal

Foreign currencies

The accounts are expressed in Sterling

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date All gains and losses on translation are taken to the profit and loss account

Pensions

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to that liability

Apple Retail UK Limited

Notes *(continued)*

1 Accounting policies *(continued)*

Leasehold property restoration

Full provision is made for the net present value of the company's costs in relation to restoration liabilities at its leasehold properties The net present value of the estimated costs is capitalised as leasehold improvements and depreciated over the remaining useful life of the leasehold property The unwinding of the discount element on the restoration provision is reflected in profit or loss Current cost estimates are revised each year and any resulting change is reflected in the carrying amount of the relevant assets

Operating leases

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

Revenue recognition

Turnover in respect of the sale of goods is recognised on delivery/collection by the customer, while service turnover is recognised once the company has met its obligations under its service

Turnover

Turnover represents the fair value of goods (computer products, hardware and peripherals) and the provision of services during the year, all of which are net of value added tax

2 Turnover

As permitted by paragraph 55(5) of schedule 4 to the Companies Act 1985, the directors have elected not to disclose the analysis of turnover and profit before taxation by class of business and geographical market, on the grounds that it would be prejudicial to the interests of the company to do so

3 Operating loss

	2006	2005
	£'000	£'000
Operating loss is stated after charging		
Auditors' remuneration	**11**	-
- audit		
Depreciation	**1,934**	1,004
Other operating lease rentals	**3,767**	2,281
Loss on disposal of tangible fixed assets	**(1,199)**	68

Audit fees were borne by a group company in 2005 at no recharge to the company

Apple Retail UK Limited

Notes *(continued)*

4 Remuneration of directors

There were no payments to directors during the year (2005 £Nil)

5 Staff costs

	2006	2005
	£'000	£'000
Wages and salaries	9,036	3,871
Social security costs	894	388
Other pension costs	111	19
	10,041	4,278

The average monthly number of employees during the year was 461 (2005 212), categorised below

	2006	2005
Administration	55	28
Sales	406	184
Total average weekly	461	212

6 Other interest receivable and similar income

	2006	2005
	£'000	£'000
Bank interest receivable	990	613
Other income	-	2
	990	615

7 Interest payable and similar charges

	2006 £'000	2005 £'000
Bank charges	**100**	18
	100	18

8 Tax on loss on ordinary activities

	2006 £'000	2005 £'000
(a) Analysis of tax charge in the year		
Total current tax charge	-	-
Deferred Tax	**928**	156
Tax on loss on ordinary activities	**928**	156

Notes *(continued)*

8 Tax on loss on ordinary activities (continued)

(b) Factors affecting tax charge for the year

The company recorded an overall loss before taxation in the period and recognised a nil charge for current taxes A reconciliation of the tax charge to the standard rate of UK Corporation Tax (30%) is given below

	2006 £'000	2005 £'000
Current tax reconciliation		
Loss on ordinary activities before tax	**(829)**	(389)
Taxation charge at UK corporation tax rate of 30%	**(249)**	(117)
Effects of		
Accelerated Capital Allowances/ Other timing differences	**(587)**	(156)
Expenses not deductible	**631**	274
Pension provision	-	(1)
Group relief not paid	**205**	-
Total current tax charge	-	-

Apple Retail UK Limited

Notes *(continued)*

9 Tangible fixed assets

	Leasehold improvement	Office equipment	Machinery & equipment	Construction in progress	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At beginning of year	13,563	59	331	3,261	17,214
Additions	440	-	28	11,255	11,723
Transfer from CIP	4,808	240	309	(5,357)	-
Disposals	(1,436)	-	(10)	-	(1,446)
At end of year	**17,375**	**299**	**658**	**9,159**	**27,491**
Depreciation					
At beginning of year	(931)	(10)	(59)	-	(1,000)
Charge for year	(1,757)	(51)	(126)	-	(1,934)
Disposals	242	-	5	-	247
At end of year	**(2,446)**	**(61)**	**(180)**	**-**	**(2,687)**
Net book value					
At 30 September 2006	**14,929**	**238**	**478**	**9,159**	**24,804**
At 25 September 2005	12,632	49	272	3,261	16,214

Apple Retail UK Limited

Notes *(continued)*

10 Stock

	2006	2005
	£'000	£'000
Finished goods	**7,885**	4,255
Service inventory	**136**	97
	8,021	4,352

The replacement cost of stocks does not differ materially from their book values

11 Debtors

	2006	2005
	£'000	£'000
Amounts owed by group undertakings	**10**	284
Other debtors and prepayments	**4,315**	2,169
Deferred tax asset	**-**	-
Corporation tax recoverable	**223**	223
	4,548	2,676

12 Creditors: amounts falling due within one year

	2006	2005
	£'000	£'000
Trade creditors	**2,931**	2,723
Amounts owed to group undertakings	**52,089**	21,040
Loan from group undertakings	**10,000**	10,000
Other creditors including taxation and social security costs		
corporation tax	**-**	-
other taxes and social security	**304**	180
Accruals	**2,757**	1,723
	68,081	35,666

Apple Retail UK Limited

Notes *(continued)*

13 Provision for liabilities and charges

	2006 £'000	2005 £'000
Long term leasehold improvement retirement obligation	252	159
Deferred tax liability	935	7
	1,187	166

The movements in deferred taxation is as follows

	£'000
At beginning of year	(7)
Charge to the profit and loss for the year	(928)
At end of year	(935)

The elements of deferred taxation are as follows recognised in full

	2006 £'000	2005 £'000
Accelerated Capital Allowances	(935)	(343)
Short term timing differences	-	335
Pension Provision	-	1
	(935)	(7)

Apple Retail UK Limited

Notes *(continued)*

14 Called up share capital

	2006 £'000	2005 £'000
Authorised		
1,000,000 ordinary shares of £1 each	**1,000**	1,000
Allotted called up equity		
1,000 ordinary shares of £1 each	**1**	1

15 Reconciliation of shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
At beginning of year	1	(909)	(908)
Loss for the year	-	(1,757)	(1,757)
At end of year	**1**	**(2,666)**	**(2,665)**

16 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 £110,511 *(2005 £19,197)* The liability outstanding at the year end was £nil *(2005 £4,291)*

17 Commitments

Capital commitments

As at 30 September 2006, contracts were in place relating to the opening of the Bentall and West Quay stores in 2007 These commitments were £993,428 & £1,665,094 respectively

Lease commitments

The annual commitments under non-cancellable operating leases at 30 September 2006 are as follows

	Buildings	
	2006	2005
	£'000	£'000
Operating leases which expire		
-within one year	**-**	-
-in the second to fifth year	**-**	-
-over five years	**4,637**	3,537
	4,637	3,537

18 Ultimate parent company and parent undertaking of larger group of which the company is a member

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

Copies of Apple Inc., accounts may be obtained from
1 Infinite Loop,
Cupertino,
CA 95014,
USA