

# **Apple Retail UK Limited**

**Strategic report,  
directors' report and  
financial statements**

**Year ended 24 September 2016**

*Registered number 04996702*

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# Apple Retail UK Limited

## Strategic report, directors' report and financial statements

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# Apple Retail UK Limited

Registered number 04996702

## Strategic report

The directors of Apple Retail UK Limited (the “Company”) present their strategic report for the year ended 24 September 2016.

### Principal activities and business review

Apple Inc. and its wholly-owned subsidiaries (the “Group”) designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Group’s products and services include iPhone®, iPad®, Mac®, iPod®, Apple Watch®, Apple TV®, a portfolio of consumer and professional software applications, iOS, macOS™, watchOS® and tvOS™ operating systems, iCloud®, Apple Pay® and a variety of accessory, service and support offerings. The Group sells and delivers digital content and applications through the iTunes Store®, App Store®, Mac App Store, TV App Store, iBooks Store™ and Apple Music® (collectively “Internet Services”). The Group sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Group sells a variety of third-party Apple compatible products, including application software and various accessories through its retail and online stores. The Group sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

The Company’s principal activity is the sale of personal computing products, mobile communication devices, and portable digital music and video players, as well as a variety of related software, services, peripherals, networking solutions and various third party hardware and software products.

The Company’s financial year is the 52 or 53-week period that ends on the last Saturday of September. The Company’s financial years 2016 and 2015 ended on September 24, 2016 and September 26, 2015, respectively.

### Key performance indicators

The key financial and other performance indicators during the year were as follows:

	2016 £’000	2015 £’000	Change %
Turnover	1,023,730	1,008,303	+2%
Operating profit	19,162	28,700	-33%
Total equity	84,358	83,614	+1%

Turnover increased by 2% versus 2015 due primarily to a change in product mix.

Operating profit decreased by 33% versus 2015 due to increased administrative expenses, primarily relating to a rise in staff costs.

Total equity has increased by 1% year on year due to capital contributions made in the year in addition to the net profit recognized for the period. These were offset by a dividend declared and paid.

There were 39 stores open as at 24 September 2016, including one shop-in-shop. Since 24 September 2016 no new stores have been opened.

# Apple Retail UK Limited

Registered number 04996702

## Strategic report (continued)

In 2016, the Company had a monthly average number of employees of 4,926 (2015: 4,602), which was an increase of 7% on the prior year. This is driven by increased business activities and the overall growth of the business.

Each indicator is 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 set out above.

### Risks and uncertainties

The risks and uncertainties faced by the business are those typical of the retail sector. The Company has invested in equipment and leasehold improvements, information systems, and personnel. In addition, the Company has also entered into operating lease commitments for retail space with lease terms generally ranging from 10 to 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 results of the Company's operations and financial condition. Additionally, a relatively high proportion of the store costs are fixed because of personnel costs, depreciation of store construction costs, and lease expenses. As a result, significant losses may 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 Company 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.

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and increased regulatory complexities. These changes may adversely affect the Company's operations and financial results.

Financial risk is managed by Apple Inc.'s, specialist Treasury department under policies approved by its board of directors. Therefore the financial risk facing the Company is considered low.

### Results

The profit for the year after taxation amounted to £3,744,000 (2015: £21,932,000).

By order of the board

Director

Print.....

GENE LEVUFF

Dated 22 June 2017

5<sup>th</sup> Floor  
6 St Andrew Street  
London EC4A 3AE

# Apple Retail UK Limited

Registered number 04996702

## Director's report

The directors of the Company present their report for the year ended 24 September 2016.

### Directors

The directors who held office during the year were as follows:

Gary Wipfler (resigned 01 February 2016)

Gene Levoff

Michael Boyd (appointed 01 February 2016)

The Company Secretary is Abogado Nominees Limited.

### Dividend

A dividend of £24,000,000 (2015: £30,000,000) was proposed and paid during the year.

### Future developments

The directors aim to maintain the management policies which have resulted in the Company's growth in recent years.

### Post balance sheet events

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

### Going concern

The Company's business activities, together with factors likely to affect its future development, performance and position are set out in the principal activities and business review, risks and uncertainties and key performance indicators sections of the Strategic Report. The directors believe the Company is well placed to manage its business risks successfully.

The Company is in a net current liabilities position at the end of the reporting period. Notwithstanding this, the Company's directors have a reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. The Company has received a Letter of Support from Apple Inc., the ultimate parent to the Company, confirming that the parent will provide adequate financial support to the Company to enable it to meet its obligations as and when they fall due for a period of 12 months from the date of approval of the financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

The results of the Company for the year ended 24 September 2016 as set out on page 8 are considered satisfactory.

### Political contributions

The Company made no political contributions during the year (2015: £Nil).

### Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

# Apple Retail UK Limited

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## Directors' report (continued)

### Employee involvement

The Company invites all store-based employees to complete an online feedback questionnaire two times a year, which allows the Company to hear directly from team members about their own experiences working in the Company and is designed to help support an environment of consistent and ongoing feedback among the Company's teams and leadership. This survey is optional and anonymous. Further surveys of other employee groups may be carried out on an ad-hoc basis. An employee forum representing all the Company's store employees is also established which enables the Company to share relevant information in an open environment that allows the employees to bring important issues from a business and employee perspective. The Company's employees are represented in the European Consultation Forum, Apple's European Works Council.

### Risks and uncertainties

The risks and uncertainties facing the Company are disclosed in the Strategic report.

### Disclosure of information to the 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 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.

### Qualifying third party indemnity provisions

The company benefits from a global indemnity policy which protects its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

### Reappointment of the auditors

In accordance with s.487 of the Companies Act 2006, Ernst & Young, Chartered Accountants will be deemed reappointed as auditors of the Company.

By order of the board

Director

Print.....

GENE LEVOFF

Dated 22 June 2017

5<sup>th</sup> Floor  
6 St Andrew Street  
London EC4A 3AE

# Apple Retail UK Limited

Registered number 04996702

## Directors' responsibilities statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law), including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 AUDITOR'S REPORT TO THE MEMBERS OF APPLE RETAIL UK LIMITED**

We have audited the financial statements of Apple Retail UK Limited for the year ended 24 September 2016 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### ***Scope of the audit of the financial statements***

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### ***Opinion on financial statements***

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 24 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.





Building a better  
working world

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APPLE RETAIL UK LIMITED  
(Continued)**

***Opinion on other matter prescribed by the Companies Act 2006***

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

***Matters on which we are required to report by exception***

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;

Anne O'Leary (Senior Statutory Auditor)  
for and on behalf of Ernst & Young, Statutory Auditor  
Cork, Ireland.

22 June 2017

# Apple Retail UK Limited

## Statement of comprehensive income for the year ended 24 September 2016

	<i>Note</i>	<b>2016 £'000</b>	<b>2015 £'000</b>
<b>Turnover – continuing operations</b>	<b>2</b>	<b>1,023,730</b>	1,008,303
Cost of sales		(771,847)	(761,496)
		<hr/>	<hr/>
<b>Gross profit – continuing operations</b>		<b>251,883</b>	246,807
Distribution costs		(703)	(514)
Administrative expenses		(260,232)	(240,662)
Other operating income	<b>3</b>	<b>28,214</b>	23,069
		<hr/>	<hr/>
<b>Operating profit – continuing operations</b>	<b>4</b>	<b>19,162</b>	28,700
Other interest receivable and similar income	<b>6</b>	<b>448</b>	552
Interest payable and similar charges	<b>7</b>	<b>(2,023)</b>	(920)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		<b>17,587</b>	28,332
Tax on profit on ordinary activities	<b>8</b>	<b>(13,843)</b>	(6,400)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>3,744</b>	21,932
		<hr/>	<hr/>
Total other comprehensive income/ (loss)		-	-
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		<b>3,744</b>	21,932
		<hr/>	<hr/>

# Apple Retail UK Limited

## Statement of financial position

at 24 September 2016

	Note	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Tangible fixed assets	10	119,480	86,685
Intangible fixed assets	11	31	136
		<u>119,511</u>	<u>86,821</u>
<b>Current assets</b>			
Stocks	12	53,041	62,680
Debtors: amounts falling due within one year	13	113,190	62,233
Cash at bank and in hand		2,316	5,596
		<u>168,547</u>	<u>130,509</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(185,476)</u>	<u>(115,790)</u>
<b>Net current (liabilities)/ assets</b>		<u>(16,929)</u>	<u>14,719</u>
<b>Total assets less current liabilities</b>		<u>102,582</u>	<u>101,540</u>
<b>Creditors: amounts falling due after more than one year</b>	15	<u>(12,094)</u>	<u>(13,000)</u>
<b>Provisions for liabilities</b>	16	<u>(6,130)</u>	<u>(4,926)</u>
<b>Net assets</b>		<u>84,358</u>	<u>83,614</u>
<b>Capital and reserves</b>			
Called up share capital	17	1	1
Profit and loss account		4,062	24,318
Capital reserves	18	80,295	59,295
		<u>84,358</u>	<u>83,614</u>
<b>Shareholder's funds</b>		<u>84,358</u>	<u>83,614</u>

These financial statements were approved by the board of directors on ..... 22 June 2017 .....  
and were signed on its behalf by:

Director

Print.....

GENE LEVOFF

Dated 22 June 2017

5<sup>th</sup> Floor,  
6 St Andrew Street,  
London EC4A 3AE

# Apple Retail UK Limited

## Statement of changes in equity for the year ended 24 September 2016

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Capital reserve £'000</b>	<b>Total £'000</b>
At 27 September 2014	1	32,386	45,262	77,649
Profit for the financial year	-	21,932	-	21,932
Other comprehensive income	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	21,932	-	21,932
Capital contribution (note 18)	-	-	14,033	14,033
Dividends paid (note 9)	-	(30,000)	-	(30,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 26 September 2015	1	24,318	59,295	83,614
Profit for the financial year	-	3,744	-	3,744
Other comprehensive income	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	3,744	-	3,744
Capital contribution (note 18)	-	-	21,000	21,000
Dividends paid (note 9)	-	(24,000)	-	(24,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 24 September 2016	1	4,062	80,295	84,358
	<hr/>	<hr/>	<hr/>	<hr/>

# Apple Retail UK Limited

Notes to the financial statements  
At 24 September 2016

## 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.

### *Statement of compliance*

Apple Retail UK Limited is a limited liability company incorporated in the United Kingdom. The Registered Office is 5<sup>th</sup> Floor, 6 St Andrew Street, London EC4A 3AE.

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law), including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

The Company transitioned from previously extant UK GAAP to FRS 102 as at 28 September 2014. There is no material impact on the reported financial position and financial performance from the transition to FRS 102 to the Company.

Prior year comparatives have been updated to reflect the changes in the presentation and disclosures as required by FRS 102.

### *Basis of preparation*

The company has taken advantage of the disclosure exemptions allowed under this standard. The company's shareholder was notified of and did not object to the use of the disclosure exemptions.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- Section 4 Statement of Financial Position paragraph 4.12(a)(iv)
- Section 3 Financial Statement Presentation paragraph 3.17(d)
- Section 7 Statement of Cash Flows
- Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f)
- Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- Section 33 Related Party Disclosures paragraph 33.7.

The financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and they are presented in sterling which is the functional currency of the company and rounded to the nearest £'000.

### *Going concern*

The financial statements have been prepared on the going concern basis. Although the Company is in a net current liabilities position at the end of the reporting period the Company has received a Letter of Support from Apple Inc., the ultimate parent to the Company, confirming that the parent will provide adequate financial support to the Company to enable it to meet its obligations as and when they fall due

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 1 Accounting policies (continued)

for a period of 12 months from the date of approval of the financial statements. The directors are therefore satisfied that adequate resources are available to the company and they have no reason to believe that any material uncertainty exists that would cast a doubt about the ability of the company to continue as a going concern.

### *Judgments and key sources of estimation uncertainty*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognized in the financial statements.

- *Deferred Tax Asset*

Management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

- *Impairment of non-financial assets*

The Company reviews its non financial assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to fair value. If these assets are considered to be impaired, the impairment recognized is equal to the amount by which the carrying value of the assets exceeds its fair value.

### *Revenue recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and cost, if applicable, can be reliably measured.

### **Sales of goods**

Revenue from sales of goods is recognized upon transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is not recognized to the extent there are significant uncertainties regarding recovery of the consideration due.

The Company records reductions to revenue for expected future product returns based on the Company's historical experience. Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 1 Accounting policies (continued)

### Revenue recognition for arrangements with multiple deliverables

For multi-element arrangements that include hardware products containing software essential to the hardware product's functionality, undelivered software elements that relate to the hardware product's essential software, and undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

For sales of iPhone, iPad, Apple TV, iPod touch ("iOS devices") beginning in June 2010, and Mac products ("Mac") beginning in June 2011, the Company has indicated it may from time-to-time provide future unspecified software upgrades and features to the essential software bundled with each of these hardware products free of charge to customers. In June 2011, the Company announced it would provide various non-software services to owners of qualifying versions of iOS devices and Mac. The Company has identified up to three deliverables in arrangements involving the sale of these devices. The first deliverable is the hardware and software essential to the functionality of the hardware device delivered at the time of sale.

The second deliverable is the embedded right included with the purchase of iOS devices, Mac and Apple TV to receive on a when-and-if-available basis, future unspecified software upgrades and features relating to the product's essential software. The third deliverable is the non-software services to be provided to qualifying versions of iOS devices and Mac. The Company allocates revenue between these deliverables using the relative selling price method. Because the Company has neither VSOE nor TPE for these deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of sale provided the other conditions for revenue recognition have been met. Amounts allocated to the embedded unspecified software upgrade rights and the non-software services are deferred and recognized on a straight-line basis over the estimated lives of each of these devices, which range from 24 to 48 months.

### Rendering of services

The Company earns service fee income under service agreements in place with related group undertakings. Income receivable for the provision of services to group companies is recognized when earned.

### Interest income

Revenue is recognised as interest accrues using the effective interest method.

### Dividends

Revenue is recognised when the Company's right to receive payment is established.

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 1 Accounting policies (continued)

### *Related party transactions*

As the Company is a wholly owned subsidiary of Apple Inc. the Company has taken advantage of the exemption contained in section 33.1A of FRS102 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 note 23 to the accounts.

### *Tangible and intangible fixed assets*

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the costs directly attributable to making the asset capable of operating as intended.

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

Office equipment:	5 years
Leasehold improvement:	lesser of 10 years or lease term
Machinery and equipment	5 years

The carrying values of tangible fixed assets are reviewed at each reporting date for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The capital costs associated with capital projects, are accumulated in a Construction in Progress 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.

#### **Intangible fixed assets**

Capitalised costs related to internal-use software are amortised using the straight-line method over the estimated useful economic lives of the assets, which range from 3 to 5 years. Amortisation is included in administration expenses in the Statement of comprehensive income.

### *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



# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 1 Accounting policies (continued)

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*

The financial statements are presented in Sterling ("£"), which is the company's presentational and functional currency and the level of rounding is to the nearest £'000. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The resulting monetary assets and liabilities are translated at the balance sheet rate and the exchange differences are dealt with in the profit and loss account.

### *Stocks*

Stocks 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 disposal.

### *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 payable under operating leases are charged in the profit and loss account on a straight line basis over the term of the lease. Lease incentives are recognised over the lease term on a straight line basis.

### *Share based payments*

The Company recognizes no shareholder dilution related to share-based payment transactions in which it receives employee services in exchange for equity instruments of the Company's Parent, Apple Inc. Share-based compensation cost for restricted stock units ("RSUs") is measured based on the closing fair market value of the Apple Inc.'s common stock on the date of grant. Share-based compensation cost for stock options is estimated at the grant date based on each option's fair-value as calculated by the Black-Scholes-Merton ("BSM") option pricing model. The Company recognizes share-based compensation cost as expense over the requisite service period with a corresponding shareholder contribution recorded within equity.

### *Provisions for liabilities*

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 to the financial statements  
as at 24 September 2016

## 1 Accounting policies (continued)

### *Leasehold property restoration*

Full provision is made for the Company's costs in relation to restoration liabilities at its leasehold properties. The estimated costs are capitalised as leasehold improvements and depreciated over the remaining useful life of the leasehold property. Current cost estimates are revised each year and any resulting change is reflected in the carrying amount of the relevant assets.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand.

### *Short-term debtors and creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Short-term debtors and creditors are not discounted.

## 2 Turnover

Turnover comprises consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

As permitted by paragraph 68(5) of schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and reports) Regulations 2008, 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 Other operating income

	2016 £'000	2015 £'000
Service fee income from group undertakings	28,214	23,069

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 4 Operating profit

	2016 £'000	2015 £'000
<i>Operating profit is stated after charging:</i>		
Loss on disposal of fixed assets	369	467
Depreciation of tangible fixed assets	20,097	22,413
Foreign exchange losses	1,468	232
Impairment loss on fixed assets	1,671	1,280
Amortisation of intangible fixed assets	105	238
Other operating lease rentals	23,540	20,330

Audit fees are borne by another group company in 2016 and 2015.

## 5 Staff costs

(a) Staff costs are analysed as follows:

	2016 £'000	2015 £'000
Wages and salaries	125,510	114,165
Social security costs	15,313	12,512
Other pension costs (note 19)	5,223	4,272
Share based payments	21,000	14,033
Total staff costs	167,046	144,982

The average monthly number of employees during the year was 4,926 (2015: 4,602) and is analysed into the following categories:

	2016 Number	2015 Number
Administration	151	138
Sales	4,775	4,464
	4,926	4,602

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 5 Staff costs (continued)

### (b) Directors' remuneration

There were no payments to directors during the financial year (2015: Nil).

Both directors exercised Apple Inc. restricted stock units during the year (2015: both directors exercised Apple Inc. restricted stock units).

### (c) Share-based payments

As of September 24, 2016 and September 26, 2015, the company did not have any equity-settled plans or transactions. However the company's ultimate parent, Apple Inc. had three employee benefit plans relevant to the company up until 28 December 2014: the 2014 Employee Stock Plan (the "2014 Plan"), the 2003 Employee Stock Plan (the "2003 Plan"), and the Employee Stock Purchase Plan (the "Purchase Plan"). Under these plans, the company's ultimate parent issues shares of Apple Inc. upon vesting of restricted stock units (RSUs), exercise of stock options or the employees' purchase of shares under the plans. The issuance of shares and cash received upon exercise or sale is undertaken solely by Apple Inc. and as a result no dilution in shareholder's equity or cash inflows will occur for the company. Apple Inc.'s relevant employee benefit plans are summarized as follows:

#### 2014 Employee Stock Plan

RSUs granted under the 2014 Plan generally vest over four years, based on continued employment, and are settled upon vesting in shares of Apple Inc.'s common stock on a one-for-one basis.

#### 2003 Employee Stock Plan

Options granted under the 2003 Plan generally expire seven to ten years after the grant date and generally become exercisable over a period of four years, based on continued employment, with either annual, semi-annual or quarterly vesting. RSUs granted under the 2003 Plan vest over two to four years, based on continued employment and are settled upon vesting in shares of Apple Inc.'s common stock on a one-for-one basis. In the second quarter of 2014, Apple Inc. terminated the authority to grant new awards under the 2003 plan.

#### Employee Stock Purchase Plan

The Purchase Plan is an Apple Inc. shareholder approved plan under which substantially all employees may purchase Apple Inc. common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the Purchase Plan are limited to 10% of the employee's compensation and employees may not purchase more than US\$25,000 of stock during any calendar year.

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 6 Other interest receivable and similar income

	2016 £'000	2015 £'000
Interest from loans to related undertakings	448	552

## 7 Interest payable and similar charges

	2016 £'000	2015 £'000
Bank charges and fees	646	920
Other interest and similar charges	1,377	-
	<u>2,023</u>	<u>920</u>

## 8 Tax

### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2016 £'000	2015 £'000
<i>Current tax:</i>		
UK corporation tax at 20% (2015: 20.5%)	8,120	9,435
Adjustment in respect of prior years	5,485	60
	<u>13,605</u>	<u>9,495</u>
<i>Deferred tax:</i>		
Depreciation/ capital allowances	(2,451)	(2,843)
Other timing differences	(1,034)	(252)
Reversal of accelerated capital allowances	3,723	-
	<u>238</u>	<u>(3,095)</u>
Deferred tax charge/(credit)		
	<u>13,843</u>	<u>6,400</u>

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 8 Tax (continued)

### (b) Reconciliation of the total tax charge

The tax charge for the year is different to the standard rate of corporation tax in the UK of 20% (2015: 20.5%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	17,587	28,332
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.5%)	3,517	5,808
Disallowed expenses and non-taxable income	860	193
Impact of rate change on opening deferred tax asset	169	262
Impact of difference in rate between corporation tax and deferred tax	89	77
Adjustment in respect of prior years	9,208	60
Total tax expense	13,843	6,400

### (c) Factors that may affect future tax charges

At the Summer Budget 2015, the government announced a reduction in the rate from 20% to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020. At budget 2016, the government announced a further reduction to the Corporate tax main rate for the year starting 1 April 2020, setting the rate at 17%.

The Company has a recognised deferred tax asset of £6,694,000 (2015: £6,932,000) comprising:

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 8 Tax (continued)

### (c) Factors that may affect future tax charges (continued)

Deferred tax	2016 £'000	2015 £'000
Accelerated capital allowances	2,499	3,771
Share based payments timing difference	4,195	3,161
	<u>6,694</u>	<u>6,932</u>
Deferred tax asset at start of year	6,932	3,837
Deferred tax credit in profit and loss account	3,485	3,095
Reversal of accelerated capital allowances	(3,723)	-
	<u>6,694</u>	<u>6,932</u>

The Company reviews its position on the utilisation of deferred tax assets on an annual basis. Currently the Company expects £2,466,000 of the closing deferred tax asset to be reversed during the next financial period.

## 9 Dividends

	2016 £'000	2015 £'000
Declared and paid during the year	<u>24,000</u>	<u>30,000</u>

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 10 Tangible fixed assets

	Leasehold improvement £'000	Office equipment £'000	Machinery and equipment £'000	Construction in progress £'000	Total £'000
<i>Cost</i>					
At beginning of year	177,678	4,709	16,483	9,533	208,403
Additions	4,518	42	2,129	48,243	54,932
Transfer from CIP	20,060	-	1,484	(21,544)	-
Disposals	(936)	-	(90)	-	(1,026)
<b>At end of year</b>	<b>201,320</b>	<b>4,751</b>	<b>20,006</b>	<b>36,232</b>	<b>262,309</b>
<i>Depreciation</i>					
At beginning of year	(105,975)	(3,968)	(11,775)	-	(121,718)
Charge for year	(17,210)	(390)	(2,497)	-	(20,097)
Impairment	(1,551)	(79)	(41)	-	(1,671)
Disposals	631	-	26	-	657
<b>At end of year</b>	<b>(124,105)</b>	<b>(4,437)</b>	<b>(14,287)</b>	<b>-</b>	<b>(142,829)</b>
<i>Net book value</i>					
<b>At 24 September 2016</b>	<b>77,215</b>	<b>314</b>	<b>5,719</b>	<b>36,232</b>	<b>119,480</b>
At 26 September 2015	71,703	741	4,708	9,533	86,685



# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 11 Intangible fixed assets

	2016 £'000 Software	2015 £'000 Software
<b>Cost</b>		
At beginning and end of year	842	842
	<hr/>	<hr/>
<b>At end of year</b>	<b>842</b>	<b>842</b>
	<hr/>	<hr/>
<b>Amortisation</b>		
At beginning of year	(706)	(468)
Charge for the year	(105)	(238)
	<hr/>	<hr/>
<b>At end of year</b>	<b>(811)</b>	<b>(706)</b>
	<hr/>	<hr/>
<b>Net book value</b>	<b>31</b>	<b>136</b>
	<hr/>	<hr/>

## 12 Stocks

	2016 £'000	2015 £'000
Finished goods	47,073	57,435
Service inventory	5,968	5,245
	<hr/>	<hr/>
	<b>53,041</b>	<b>62,680</b>
	<hr/>	<hr/>

There is no material difference between the replacement cost of stock and the carrying value.

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 13 Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade debtors	32,318	34,714
Amounts owed by group undertakings	68,942	10,672
Prepayments and accrued income	5,236	7,065
Other receivables	-	2,850
Deferred tax asset (note 8)	6,694	6,932
	<u>113,190</u>	<u>62,233</u>

The amounts owed by group undertakings are interest bearing and repayable on demand.

## 14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	17,245	8,882
Amounts owed to group undertakings	86,885	36,770
VAT	17,927	16,511
Corporation tax	12,381	10,305
Other taxes and social security taxes	3,958	2,936
Accruals	28,092	22,300
Short term deferred revenue	18,988	18,086
	<u>185,476</u>	<u>115,790</u>

The amounts owed to group undertakings are non-interest bearing and repayable on demand.

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Long term deferred revenue	12,094	13,000

## 16 Provisions for liabilities

	National insurance on unvested SBP £'000	Long term leasehold improvement £'000	Total £'000
At 26 September 2015	3,105	1,821	4,926
Arising during the year	1,750	-	1,750
Utilised during the year	(546)	-	(546)
<b>At 24 September 2016</b>	<b>4,309</b>	<b>1,821</b>	<b>6,130</b>

The long term leasehold improvement provision is in respect of asset retirement obligations whereby the Company has an obligation to restore its leased premises to their original condition on vacation of the lease between 2017 and 2029.

A provision has been applied for national insurance contribution liability in relation to unvested restricted stock units and unexercised stock options.

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 17 Called up share capital

	2016 £'000	2015 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1	1

On 16 December 2003, 1,000 ordinary shares were issued for £1,000 to the parent company, Apple Retail Europe UC (previously Apple Retail Europe Holding).

The ordinary shares carry the right to;

- (a) receive notice of, attend, speak or vote at any general meeting of the company. Where a matter is being decided on a show of hands, every member present in person and every proxy shall have one vote and on a poll, every member shall have one vote for every share held or for each £1 of stock held
- (b) participate in any dividends (if any) declared on that class of share; and
- (c) in the winding up of the company, repayment of capital paid upon such shares and the right to participate in the division of any surplus assets of profits of the company.

## 18 Capital reserves

	2016 £'000	2015 £'000
Capital Contributions	80,295	59,295

Capital contribution balance as at 24 September 2016 consists of share-based compensation related to employee stock options.

## 19 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 £5,223,000 (2015: £4,272,000). The liability outstanding at year end was £795,000 (2015: £640,000).

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## 20 Commitments

### Capital Commitments

There were no capital commitments at 24 September 2016 (2015 £Nil).

### Other commitments

As at 24 September 2016, there were other commitments, relating to the licensing of technology and provision of support services, amounting to £2,460,000 (2015: £2,460,000).

## 21 Guarantees

The Company has issued a guarantee in favour of HM Customs & Excise in the amount of £1,000,000 (2015: £1,000,000).

## 22 Obligations under lease contracts

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 Buildings £'000	2015 Buildings £'000
- Not later than one year	22,214	22,524
- Later than one year and not later than five years	78,507	79,051
- Later than five years	74,281	77,277
	<hr/>	<hr/>
	175,002	178,852
	<hr/>	<hr/>

## 23 Ultimate parent company and parent undertaking of largest 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 Retail UK Limited are consolidated.

Copies of Apple Inc., accounts may be obtained from:

1 Infinite Loop  
Cupertino  
CA 95014  
USA

# Apple Retail UK Limited

Notes to the financial statements  
as at 24 September 2016

## **24 Related party transactions**

The company undertakes transactions with other group undertakings. As the company is a wholly owned subsidiary undertaking of Apple Inc., the consolidated financial statements of which are publically available, disclosure of such transactions is not required under Section 33 Related party disclosures paragraph 33.1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

## **25 Events after the reporting period**

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

## **26 Approval of financial statements**

The directors issued and approved the financial statements on 22 June 2017