Investment Analysis of Apple

4 June 2016

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Investment Thesis

Investment Thesis	Apple's products are highly popular with consumers, enabling it to earn a high ROIC. However, unlike non-IT brand franchises (e.g. Coca-Cola, Patek Philippe) which can maintain dominant positions without significant improvements to the product, Apple is required to innovate every year to stay ahead of the competition. Believes that in the highly-competitive consumer IT market, the leading player will earn outsize profits. Apple's future financial performance is thus critically dependent on its ability to deliver better products than all its competitors. And given the nature of innovation, the key to developing great products is to attract talented people and get the best out of them. Betting on Apple is thus betting on its people (not its brand or business model). Believes that there will be enough heritage, love and talent at Cupertino for Apple to maintain its lead position for the next 10 years. Believes that the greatest risk is an abrupt departure of Tim Cook (CEO since 2011) and Apple loses its romantic culture thereafter. Under a base/neutral scenario where average distributable cash flow and net profit for the next 10 years are projected to be 36% and 30% lower respectively than in FY2015, cash yield of 9.0% is obtainable on share price of USD113 and earnings yield of 9.4% is obtainable on share price of USD96.
Earnings Power	Apple earns a high ROIC. Estimate Apple to earn a ROIC of 133% in FY2016 even after projecting for a 36% decrease in FCF from USD69mn to USD44mn. Apple's high ROIC is a result of high FCF margin (25%), high asset turnover (189%) and high leverage on operating capital (282%). These impressive financial measures ultimately stem from the high quality and popularity of Apple's products.

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Industry Conditions and Competition	Believes that significant improvements can still be made to the smartphone to stimulate consumers' upgrading. Competition in the consumer IT market is fierce and to some extent, smartphone is a commodity. IPhone is however less of a commodity than other brands. Believes that there will be enough heritage, love and talent at Cupertino for IPhone to maintain its lead position for the next 10 years.
Strengthening of Value Proposition and Competitive Position	Believes that the most important factor for Apple to maintain its lead position at the forefront of technology is—leadership. Wise, far-sighted and courageous leadership is the most important factor to maintaining a romantic work environment at Cupertino—to attract, retain and blend highly talented people (and their egos).
Potential for growth	New product lines and less mature geographical markets provide room for growth. However given Apple's large revenue size, any growth would likely be incremental.
Capital Management	Financial position at Mar2016 is conservative, with net cash of USD154bn and interest cover of 71x.

Valuation Assumptions (Base Scenario)

Pricing
in bn USD

Test share price here ($)	113.00	
No of shares (bn)	5.48	5,477,425,000 shares of common stock issued and outstanding as of April 8, 2016.
(Excess cash)	(212)	As of 26Mar16.
Debt	80	As of 26Mar16.

Base Year
in bn USD

Revenue	176	Assume 25% decrease from FY2015A.
Operating assets	93	As of 26Mar16.
Operating capital	33	As of 26Mar16.
Free cash flow	44	Assume 25% margin
(+) Other income	-	
(-) Other expenses	-	

Projection	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10
Revenue growth	0.0%	→	→	→	→	0.0%	→	→	→	→
Revenue / Op assets	189%	→	→	→	→	189%	→	→	→	→
Op assets / Op capital	282%	→	→	→	→	282%	→	→	→	→
FCF / Revenue	25.0%	→	→	→	→	25.0%	→	→	→	→
Other income growth	0.0%	→	→	→	→	0.0%	→	→	→	→
Other expenses growth	0.0%	→	→	→	→	0.0%	→	→	→	→

Base scenario

Base scenario projects FY2016 revenue and distributable cash flow to decrease y-o-y by 25% and 36% respectively, noting that FY2015 was Apple's most successful year ever (with revenue growing 28%). Further projects that financial performance in the next 10 years would stay flat at FY2016 level. Underlying this 'neutral' projection is the belief that while the industry/competition would constantly introduce new innovative products and eat into Apple's profitability, Apple would also ride the innovation wave and continue to lead.

Valuation (Base Scenario)

Valuation

in bn USD

						EV		10-yr Avg CF		Return
Share price ($)	113.00		(Cash)	(212)						
No of shares (mn)	5	+	Debt	80	=	487	vs	44	=	9.0%
Market cap	**619**		**Net (Cash) / Debt**	**(132)**						

Projections	Base	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
YE Sep											in bn USD
Revenue	176	176	176	176	176	176	176	176	176	176	176
Revenue growth		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating assets	93	93	93	93	93	93	93	93	93	93	93
Asset turnover	189%	189%	189%	189%	189%	189%	189%	189%	189%	189%	189%
Operating capital	33	33	33	33	33	33	33	33	33	33	33
Op assets / Op capital	282%	282%	282%	282%	282%	282%	282%	282%	282%	282%	282%
Free cash flow	44	44	44	44	44	44	44	44	44	44	44
FCF margin	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
FCF / Op capital	133%	133%	133%	133%	133%	133%	133%	133%	133%	133%	133%
FCF growth		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other income	-	-	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-	-	-	-
Total cash flow		44	44	44	44	44	44	44	44	44	44
(-) CF re-invested		(0)	-	-	-	-	-	-	-	-	-
CF distributed		**44**	**44**	**44**	**44**	**44**	**44**	**44**	**44**	**44**	**44**

Valuation based on cash yield	Based on distributable cash flow of USD44bn, cash yield of 9.0% is obtainable on share price of USD113.

Valuation (Sensitivity)

Valuation Range

			-25%	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	25%
Share price sensitivity :			-25%	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	25%
Share price :			84.75	90.40	96.05	101.70	107.35	113.00	118.65	124.30	129.95	135.60	141.25
Mkt cap :			464	495	526	557	588	619	650	681	712	743	774
Adj mkt cap :			332	363	394	425	456	487	518	549	580	611	642

Legend

if > or =	9.0%	green

			-25%	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	25%
FY2015 net profit	53	/ Mkt cap	11.4%	10.7%	10.1%	9.5%	9.0%	8.6%	8.2%	7.8%	7.4%	7.1%	6.9%
		/ Adj mkt cap	16.0%	14.6%	13.4%	12.5%	11.6%	10.9%	10.2%	9.7%	9.1%	8.7%	8.3%
FY2015 net profit - reduced by 20%	42	/ Mkt cap	9.1%	8.6%	8.1%	7.6%	7.2%	6.9%	6.5%	6.2%	6.0%	5.7%	5.5%
		/ Adj mkt cap	12.8%	11.7%	10.8%	10.0%	9.3%	8.7%	8.2%	7.7%	7.3%	6.9%	6.6%
FY2015 net profit - reduced by 30%	37	/ Mkt cap	8.0%	7.5%	7.1%	6.7%	6.3%	6.0%	5.7%	5.4%	5.2%	5.0%	4.8%
		/ Adj mkt cap	11.2%	10.2%	9.4%	8.7%	8.1%	7.6%	7.2%	6.8%	6.4%	6.1%	5.8%
FY2015 capital returned to shareholders	47	/ Mkt cap	10.1%	9.5%	8.9%	8.4%	8.0%	7.6%	7.2%	6.9%	6.6%	6.3%	6.1%
		/ Adj mkt cap	14.1%	12.9%	11.9%	11.1%	10.3%	9.7%	9.1%	8.6%	8.1%	7.7%	7.3%

Valuation based on earnings yield	Based on net profit of USD37bn, earnings yield of 9.4% is obtainable on share price of USD96.

Earnings Power

	FY2013 A	FY2014 A	FY2015 A	FY2016 P	
(In billions USD)					
Revenue	171	183	234	176	Assume decrease 25%
Operating profit	49	53	71	53	Assume 30% OPM
Op profit margin	29%	29%	30%	30%	Assume 30%
FCF	44	46	69	44	Assume 25% margin
FCF margin	26%	25%	29%	25%	Assume 25%
Operating assets				93	As at Mar2016
Revenue / Op assets				189%	Derived
Operating capital				33	As at Mar2016
Op assets / Op capital				282%	As at Mar2016
FCF / Op capital				**133%**	Derived

- Apple earns a high ROIC. Estimate Apple to earn a ROIC of 133% in FY2016 even after projecting for a 36% decrease in FCF, from USD69bn to USD44bn.

- Apple's high ROIC is a product of :
  - High FCF margin (25%) → believe this is a reflection of Apple's high pricing power
  - High asset turnover (189%) → believe this is a function of Apple's dominant position (relative to component suppliers and final-product distributors) in the value chain.
  - High leverage on operating capital (282%) →believe this is a function of Apple's dominant position (relative to component suppliers and final-product distributors) in the value chain.

		September 26, 2015	September 27, 2014	September 28, 2013
Cash and cash equivalents, beginning of the year		$ 13,844	$ 14,259	$ 10,746
Operating activities:				
Net income		53,394	39,510	37,037
Adjustments to reconcile net income to cash generated by operating activities:				
Depreciation and amortization		11,257	7,946	6,757
Share-based compensation expense		3,586	2,863	2,253
Deferred income tax expense		1,382	2,347	1,141
Changes in operating assets and liabilities:				
Accounts receivable, net		611	(4,232)	(2,172)
Inventories		(238)	(76)	(973)
Vendor non-trade receivables		(3,735)	(2,220)	223
Other current and non-current assets		(179)	167	1,080
Accounts payable		5,400	5,938	2,340
Deferred revenue		1,042	1,460	1,459
Other current and non-current liabilities		8,746	6,010	4,521
Cash generated by operating activities	OCF	81,266	59,713	53,666
Investing activities:				
Purchases of marketable securities		(166,402)	(217,128)	(148,489)
Proceeds from maturities of marketable securities		14,538	18,810	20,317
Proceeds from sales of marketable securities		107,447	189,301	104,130
Payments made in connection with business acquisitions, net		(343)	(3,765)	(496)
Payments for acquisition of property, plant and equipment	Recurring capex	(11,247)	(9,571)	(8,165)
Payments for acquisition of intangible assets		(241)	(242)	(911)
Other		(26)	16	(160)
Cash used in investing activities		(56,274)	(22,579)	(33,774)

FCF

Cash Flow Statement – FY2015 (Year Ended Sep2015)		
(In billions USD)		
Cash generated by operating activities	**81**	
Acquisition of PPE and intangibles	(12)	• Treat business acquisitions as recurring capex necessary to maintain competitive edge.
Business acquisitions	(0.3)	• Recurring capex not overly-burdensome relative to operating cashflow or operating income.
FCF	**69**	• **Capital returned to shareholders (USD47bn)** can be fully funded by FCF.
Net proceeds from (purchases) of securities	(44)	
Net proceeds from (repayments) of debt	29	
Others	(0.2)	
Dividends and dividend equivalents paid	(12)	• Returned **USD47bn** to shareholders through dividends and share repurchase.
Repurchase of common stock	(35)	
Increase/(decrease) in cash and cash equivalents	**7**	
Revenue	**234**	
Operating income	**71**	
Net income	**53**	

Operating capital – 2016Q2 / Mar2016

Apple's leverage on operating capital is high at near to 3X.

March 26, 2016	bn USD
Operating assets	93
Operating liabilities	60
Operating capital	**33**

Assets – 2016Q2 / Mar2016

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions, except number of shares which are reflected in thousands and par value)

ASSETS:	March 26, 2016	September 26, 2015
Current assets:		
Cash and cash equivalents	$ 21,514	$ 21,120
Short-term marketable securities	33,769	20,481
Accounts receivable, less allowances of $60 and $63, respectively	12,229	16,849
Inventories	2,281	2,349
Vendor non-trade receivables	7,595	13,494
Other current assets	10,204	15,085
Total current assets	87,592	89,378
Long-term marketable securities	177,645	164,065
Property, plant and equipment, net	23,203	22,471
Goodwill	5,249	5,116
Acquired intangible assets, net	3,843	3,893
Other non-current assets	7,745	5,556
Total assets	$ 305,277	$ 290,479

- The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these components directly from suppliers.

March 26, 2016	bn USD	%	Remarks
PPE	23	25	
Goodwill + Intangible + Other	17	18	
AR	12	13	
Other current	18	19	
Inventories	2	2	Light on inventories
Cash	22	24	
Operating assets	**93**	**100%**	
ST marketable securities	34		
LT marketable securities	178		
Non-operating assets	**212**		Investments account for ~2/3 of assets
Total assets	**305**		

Liabilities and shareholders' equity – 2016Q2 / Mar2016

LIABILITIES AND SHAREHOLDERS' EQUITY:

Current liabilities:		
Accounts payable	$ 25,098	$ 35,490
Accrued expenses	23,208	25,181
Deferred revenue	9,461	8,940
Commercial paper	7,998	8,499
Current portion of long-term debt	2,500	2,500
Total current liabilities	68,265	80,610
Deferred revenue, non-current	3,322	3,624
Long-term debt	69,374	53,463
Other non-current liabilities	33,859	33,427
Total liabilities	174,820	171,124
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.00001 par value: 12,600,000 shares authorized; 5,478,446 and 5,578,753 shares issued and outstanding, respectively	29,484	27,416
Retained earnings	102,021	92,284
Accumulated other comprehensive income/(loss)	(1,048)	(345)
Total shareholders' equity	130,457	119,355
Total liabilities and shareholders' equity	$ 305,277	$ 290,479

Commercial Paper

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of March 26, 2016 and September 26, 2015, the Company had $8.0 billion and $8.5 billion of Commercial Paper outstanding, respectively, with maturities generally less than nine months. The weighted-average interest rate of the Company's Commercial Paper was 0.39% as of March 26, 2016 and 0.14% as of September 26, 2015.

	Maturities	March, Amount (in millions)
2013 debt issuance of $17.0 billion:		
Floating-rate notes	2016 - 2018	$ 3,000
Fixed-rate 0.45% - 3.85% notes	2016 - 2043	14,000
2014 debt issuance of $12.0 billion:		
Floating-rate notes	2017 - 2019	2,000
Fixed-rate 1.05% - 4.45% notes	2017 - 2044	10,000
2015 debt issuances of $27.3 billion:		
Floating-rate notes	2017 - 2020	1,781
Fixed-rate 0.35% - 4.375% notes	2017 - 2045	25,063
Second quarter 2016 debt issuance of $15.5 billion:		
Floating-rate notes	2019	500
Floating-rate notes	2021	500
Fixed-rate 1.30% notes	2018	500
Fixed-rate 1.70% notes	2019	1,000
Fixed-rate 2.25% notes	2021	3,000
Fixed-rate 2.85% notes	2023	1,500
Fixed-rate 3.25% notes	2026	3,250
Fixed-rate 4.50% notes	2036	1,250
Fixed-rate 4.65% notes (30-year !!)	2046	4,000
Total debt issuance		15,500
Total term debt		71,344

March 26, 2016	bn USD	%	Remarks
AP	25		
Accrued expenses	23		
Deferred revenue	9		
Deferred revenue (non-current)	3		
Operating liabilities	**60**		
Other non-current liabilities	34		Consist primarily of deferred tax liabilities
Non-operating liabilities	**34**		
Commercial paper	8		
Current portion of LT debt	3		
LT debt	69		
Debt	**80**		
Total liabilities	**174**		

Capital Management

Capital return projection as at 2016Q2 / Mar2016

The quarterly dividend will grow from $0.52 per share to $0.57 per share an increase of about 10%. This is effective with our next dividend, which the board has declared today and is payable on May 12, 2016 to shareholders of record as of May 9, 2016.

We continue to plan for annual dividend increases going forward. With 12 billion in annual dividend payments, we're proud to be one of the largest dividend payers in the world.

In total, with this updated program, during the next eight quarters, we expect to return 87 billion to our investors which represents about 15% of our market cap at the current stock price.

As in the past, we expect to fund our capital return program with U.S. cash, future U.S. cash flow generation, and borrowing from both domestic and international debt markets.

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Interest and dividend income	$ 2,921	$ 1,795	$ 1,616
Interest expense	(733)	(384)	(136)
Other expense, net	(903)	(431)	(324)
Total other income/(expense), net	$ 1,285	$ 980	$ 1,156

	bn USD	Remarks
Debt	80	At Mar2016
Cash	234	At Mar2016
Net debt / (Cash)	(154)	At Mar2016
Equity	131	At Mar2016
Net debt / equity	**(Net cash)**	
EBIT	71	FY2015A
Interest expense	1	FY2015A
EBIT / interest	**71x**	

Annex A – Analysis of Financial Statements

P&L – 2016Q2

	Three Months Ended March 26, 2016	Three Months Ended March 28, 2015
Net sales	$ 50,557	$ 58,010
Cost of sales	30,636	34,354
Gross margin	19,921	23,656
Operating expenses:		
Research and development	2,511	1,918
Selling, general and administrative	3,423	3,460
Total operating expenses	5,934	5,378
Operating income	13,987	18,278
Other income/(expense), net	155	286
Income before provision for income taxes	14,142	18,564
Provision for income taxes	3,626	4,995
Net income	$ 10,516	$ 13,569
Earnings per share:		
Basic	$ 1.91	$ 2.34
Diluted	$ 1.90	$ 2.33
Shares used in computing earnings per share:		
Basic	5,514,381	5,793,799
Diluted	5,540,886	5,834,858
Cash dividends declared per share	$ 0.52	$ 0.47

- Net sales decreased 13% yoy.
- Gross profit decreased 16% yoy with drop in gross profit margin.
- Opex (R&D and SG&A) increased 10% yoy.
- Operating income decreased 23% yoy.
- Net income decreased 22% yoy.
- DPS increased 11% yoy.

Sales by Geographical Segment and Product – 2016Q2

(dollars in millions and units in thousands)

		Three Months Ended March 26, 2016	Three Months Ended March 28, 2015	Change
Net Sales by Operating Segment:				
Americas		$ 19,096	$ 21,316	(10)%
Europe		11,535	12,204	(5)%
Greater China		12,486	16,823	(26)%
Japan		4,281	3,457	24%
Rest of Asia Pacific		3,159	4,210	(25)%
Total net sales		$ 50,557	$ 58,010	(13)%
Net Sales by Product:				
iPhone (1)	65%	$ 32,857	$ 40,282	(18)%
iPad (1)		4,413	5,428	(19)%
Mac (1)		5,107	5,615	(9)%
Services (2)		5,991	4,996	20%
Other Products (1)(3)		2,189	1,689	30%
Total net sales		$ 50,557	$ 58,010	(13)%
Unit Sales by Product:				
iPhone	78%	51,193	61,170	(16)%
iPad		10,251	12,623	(19)%
Mac		4,034	4,563	(12)%
		65,478		

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and those Asian countries not included in the Company's other reportable operating segments. Although, the reportable operating segments provide similar hardware and software products and similar services, each one is managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. Further information regarding the Company's reportable operating segments can be found in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements, in Note 11, "Segment Information and Geographic Data."

- Drop in revenue is most pronounced in Greater China (-26%) and Rest of Asia Pacific (-25%). On a worldwide basis, drop in revenue is less severe.
- iPhone accounted for about two-third of revenue and about 80% of product units sold → product concentration risk.

Gross Margin and Operating Expenses – 2016Q2

	Three Months Ended	
	March 26, 2016	March 28, 2015
Net sales	$ 50,557	$ 58,010
Cost of sales	30,636	34,354
Gross margin	$ 19,921	$ 23,656
Gross margin percentage	39.4%	40.8%

The gross margin percentage decreased during the second quarter of 2016 and the first six months of 2016 compared to the same periods in 2015 due primarily to the effect of weakness in foreign currencies relative to the U.S. dollar and unfavorable leverage on fixed costs from lower net sales, partially offset by a favorable shift in mix to products and services with higher margins.

The Company anticipates gross margin during the third quarter of 2016 to be between 37.5% and 38.0%. The foregoing statement regarding the Company's expected gross margin percentage in the third quarter of 2016 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, its financial condition and operating results, including gross margins, could be significantly affected by fluctuations in exchange rates.

We expect gross margins to be between 37.5 and 38%. We expect continued cost improvements to be more than offset by the sequential loss of leverage from lower revenue and a different mix of products.

	Three Months Ended	
	March 26, 2016	March 28, 2015
Research and development	$ 2,511	$ 1,918
Percentage of total net sales	5.0%	3.3%
Selling, general and administrative	$ 3,423	$ 3,460
Percentage of total net sales	6.8%	6.0%
Total operating expenses	$ 5,934	$ 5,378
Percentage of total net sales	11.7%	9.3%

Research and Development

The year-over-year increase in R&D expense during the second quarter and first six months of 2016 compared to the same periods in 2015 was driven primarily by an increase in headcount and related expenses, including share-based compensation costs, and material costs to support expanded R&D activities. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and updated products that are central to the Company's core business strategy.

Selling, General and Administrative

The year-over-year decrease in selling, general and administrative expense during the second quarter of 2016 compared to the same period in 2015 was due primarily to a decrease in advertising and related programs, partially offset by an increase in headcount and related expenses. The year-over-year increase in selling, general and administrative expense during the first six months of 2016 compared to the same period in 2015 was due primarily to increased headcount and related expenses.

Provision for Income Taxes – 2016Q2

	Three Months Ended	
	March 26, 2016	March 28, 2015
Provision for income taxes	$ 3,626	$ 4,995
Effective tax rate	25.6%	26.9%

The Company's effective tax rates during the second quarter of 2016 and 2015 differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings, a substantial portion of which was generated by subsidiaries organized in Ireland, for which no U.S. taxes are provided when such earnings are intended to be indefinitely reinvested outside the U.S. The lower effective tax rate during the second quarter and first six months of 2016 compared to the same periods in 2015 was due primarily to a different geographic mix of earnings.

The U.S. Internal Revenue Service is currently examining the years 2010 through 2012, and all years prior to 2010 are closed. In addition, the Company is subject to audits by state, local and foreign tax authorities. Management believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

On June 11, 2014, the European Commission issued an opening decision initiating a formal investigation against Ireland for alleged state aid to the Company. The opening decision concerns the allocation of profits for taxation purposes of the Irish branches of two subsidiaries of the Company. The Company believes the European Commission's assertions are without merit. If the European Commission were to conclude against Ireland, the European Commission could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid. While such amount could be material, as of March 26, 2016 the Company is unable to estimate the impact.

- Statutory federal income tax rate = 35%
- No U.S. taxes are provided for earnings intended to be indefinitely reinvested outside the U.S.

Annex B – About Smartphones

How better can smartphones get?
1. Better battery life 2. Seamless voice control 3. Wireless earphones 4. Flexible screens 5. Smartphone as a server for wearable technology

iPhone8 (expected Sep2017)
Rumors of a radical redesign to celebrate the 10th anniversary of the iPhone in 2017.

Acronyms

A	Actual
Capex	Capital expenditure
D&A	Depreciation and amortisation
FCF	Free cash flow
FY	Financial year
P	Projection
OCF	Operating cash flow
OPM	Operating profit margin
ROIC	Return on invested capital