**Instrument Information**

**CUSIP: 037833AM2**  
Issuer: APPLE INC.*  

*APPLE INC. was previously known as APPLE COMPUTER, INC.

This section details the Moody’s ratings for CUSIP 037833AM2.

**Aa1**  
Senior Unsecured Rating  
as of 4/27/2016

<table>
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<th>Non-Investment Grade</th>
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**Instrument Long-Term Rating**  
as of 4/27/2016

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

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**Instrument Watch Status**  
Moody’s uses Watch Status to indicate that a rating is under review for possible change in the short-term.

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**APPLE INC. AAPL**

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**Moody's Opinion**  
as of 29-Apr-2016

**Summary Rating Rationale**

The Aa1 rating reflects the enduring strength of Apple’s underlying business, including a large installed base of iPhones throughout the world, tremendous customer loyalty and extremely strong liquidity, underpinned by about $233 billion of cash and equivalents at March 26, 2016. Apple has a robust financial profile with financial metrics that compare favorably with other highly rated companies, and is poised for modest growth in revenue and cash flows in fiscal 2017 following expected declines in fiscal 2016. Although the company does not possess a dominant market share in most of its segments, its brand positioning at the higher end of its product categories, and its interrelated suite of products and services allow it to command premium pricing and generate outsized returns relative to industry peers. However, Apple does face the long-run risks for a company with exposure to shifting consumer preferences in the rapidly moving markets that it serves, which are particularly prone to transformational changes that can lead to shifts in market leadership. We also note that in light of Apple’s cash inflows being largely international and outflows being largely domestic, the company has been increasing its debt levels to carry out its dividend and stock buyback programs.

**Credit Strengths**

- Leading global brand, with a deeply loyal customer base
- Unique hardware and software integration is the engine for the cash generating ecosystem across multiple product categories
- Consistent, premium pricing drives industry-leading profitability and large cash balances

**Credit Challenges**

- Significant shareholder payouts and likely higher debt levels
- Global product leadership and industry-leading margins may be elusive over the longer term
- Company’s position as industry bellwether invites regulatory scrutiny and competitive response

**Rating Outlook**

The stable outlook reflects our expectations that Apple will continue to maintain and defend its very strong market position in mobile devices and tablets as well as expand its addressable market to new regions and carriers. The stable outlook also incorporates the expectation that Apple will continue to maintain a very high net cash balance of at least $100 billion and a lowly levered balance sheet.

**Factors that Could Lead to an Upgrade**

Given the industry risks inherent in the rapidly evolving technology and wireless communications sectors, we do not expect upwards rating movement over the intermediate term. Over the longer term, the rating could be upgraded if Apple sustains its strong business execution and cash generation, and there is tangible evidence that the company’s ecosystem cements users to its products upon subsequent updates and new product introductions ensuring sustainability of profits and cash flow. Ratings could also be upgraded if changes in US corporate tax laws or other mechanisms would allow the company to repatriate cash on a more tax efficient basis and this leads to the company sustaining low debt levels.
APPLE INC. AAPL

Rating History

APPLE INC. has a long term rating of Aa1 that reflects the Senior Unsecured rating description.

This new rating was assigned on 11/04/2014.

Factors that Could Lead to an Upgrade Continued from Page 1

rather than using debt to fund cash returns to shareholders.

Factors that Could Lead to a Downgrade

The long term rating could be downgraded if there is evidence of weakening in Apple’s core business model or we expect sustained erosion in its very strong market positions, and if profitability or cash flow generation does not continue to grow at least in line with market expansion. Although debt to EBITDA leverage has steadily increased to about 1.0 times over the last year, Apple’s rating has been supported by strong free cash flow generation and cash and investment balances being in excess of 2.0 times adjusted debt. Ratings could also be downgraded if management adopts more aggressive financial policies meaningfully beyond the program now in place. Specifically, ratings could be downgraded if adjusted Debt/EBITDA leverage rises materially above 1.0 times, and either the ratio of cash and investments to adjusted debt falls below 2.0 times or free cash flow to adjusted debt decreases below 40%.

Detailed Rating Considerations

SOLID CASH GENERATION DESPITE ONSET OF REVENUE GROWTH PRESSURES Apple’s premium pricing strategy, solid management of logistics, suppliers, contract negotiations and inventory planning, and leading retail store performance allows the company to generate healthier margins relative to industry peers. However, in its forward guidance following the March 2016 quarter, Apple acknowledged that the weak global economic environment will continue to pressure its sales performance in fiscal 2016. We believe that the company will be challenged to maintain its historic sales growth momentum, as end markets become more saturated, iPhone sales cycles elongate and iPad tablet units fall. We estimate that the company’s sales will likely be down compared to the 2015 results, with cash generation dipping for the year (we expect annual free cash flow of around $40 billion). We expect sales beyond fiscal 2016 to grow modestly, as the introduction of a next generation iPhone 7 should exceed the demand for a mid-model iPhone 6s upgrade. Over a longer term, we anticipate revenues to settle in the low to mid-single digit growth rates as Apple regularly updates its existing devices, and continues to ramp up its newer products and services, such as the Apple Watch, the Apple Pay mobile payment platform, Apple Music streaming service and the new iPhone upgrade program. AGGRESSIVE CAPITAL RETURN PROGRAMS INCREASE CREDIT RISK In April 2016 Apple increased its stock buyback authorization by an incremental $35 billion (to $175 billion), which brought the total size of the shareholder return program to $250 billion through the end of March 2018. Additional borrowings to fund a portion of the newly approved shareholder return program can be accommodated within the expectations of the Aa1 rating provided cash balances continue to well exceed debt levels and credit metrics remain very strong. The enduring strength of the company’s underlying business, including a 1 billion installed base of iOS devices, tremendous customer loyalty and extremely strong liquidity, underpinned by about $233 billion of cash and equivalents at March 26, 2016 (with about $24 billion within the U.S.) supports our view. We expect the company to continue generating strong cash flow from operations which, combined with borrowings, will give the company the ample resources to fund its current shareholder return program without endangering its credit rating in the near term. However, we believe that Apple’s sales declines yet healthy cash holdings will prompt the equity holders to demand a greater return of capital. So far, the funding for the shareholder payouts programs over and above domestic cash flow has been through additional debt, and we expect the foreign cash balances to grow given the increasing proportion of revenues generated overseas. Under the cadence established by the company’s capital return program, and the company’s announced buyback plans, our calculations show an annual need of $15 billion to $25 billion in external funding or foreign cash repatriation to meet the domestic cash needs, which include shareholder payouts and acquisitions. Absent Apple repatriating its foreign-held cash, or possibility of tax reform, the company’s gross debt balance will likely exceed $100 billion by the end of fiscal 2017. While we recognize the company’s extremely strong liquidity and our expectation of net cash balances remaining in excess of $100 billion, without an articulated plan to repatriate some of that foreign cash to help fund another large shareholder return program, the rating could come under negative pressure. eExhibit id="68634f3c-0e22-11e6-8749-42265397353"/LARGE REVENUE GROWTH OPPORTUNITIES AND NEW MARKET SEGMENTS WILL BE DIFFICULT TO REPLICATE GOING FORWARD Apple has benefited from the mobile broadband expansion around the world and increasing consumption of media outside the home. As the company penetrates more markets and its users consume more transactions, the company is close to creating a first de facto technology standard in the consumer electronics market. However, as reflected in its March 2016 quarterly earnings, large sales growth opportunities for the iPhone in the future will be more limited now that the company has gone through the pent-up demand portion of the upgrade cycle to the iPhone 6s models and has signed up most of the leading wireless carriers in the markets it serves. Greater China is now the company’s second largest market behind the Americas, and has
been the primary source of the company’s recent growth. Following declines in this market in the March 2016 quarter, we believe there’s increasing risk of stalling growth in this market as Chinese economic conditions remain weak. Apple’s next largest market opportunity is in India, where the company’s products are relatively underpenetrated. But the ability to expand its base in India or in other developing markets will depend on selling lower priced smartphones, given the lower consumer purchasing power in the regions. Apple has historically eschewed offering products across all price points but has used the previous year’s models to serve as the lower cost entry point for its devices. Recently, Apple introduced a new lower priced handset that, along with third-party vendors supplying second-hand handsets to developing markets, should enhance Apple’s entry points for consumers who want an Apple device but may not be able to afford the higher end models. These strategies should maintain growth in Apple’s sales in developing regions. Even so, the company’s premium-only price points for the majority of its products open the window for Android-based or other lower-priced OEMs to develop a new customer base ahead of Apple. Although Apple is still seen as a premium, aspirational brand around the world, industry surveys show that it is more difficult to convert customers once they have developed a familiarity with an operating system. More telco carriers are now moving away from fully subsidizing smartphone sales in exchange for long contracts. Recent data shows that a majority of iPhones worldwide are sold without a subsidy, and that trend will continue. Carriers in the developed world are experimenting with alternative offerings, some of which separate the cost of the handsets from the service plan, which may alter the handset refresh rates and affect Apple’s sales growth. Yet some of the iPhone financing plans allow for more frequent upgrades, such as every 12 or 18 month as opposed to 2 years, which decrease product refresh cycles and increase sales growth among very devoted Apple customers. In response, Apple launched its own upgrade program that incentivizes its customers to replace an iPhone every year. If successful, this program will shorten the replacement cycle, while Apple will have a steady supply of secondary market handsets that it can seed in the developing world, further expanding its user base. The program is still relatively small at this point, but may expose the company to additional credit risks if Apple starts using its balance sheet to help its customers finance the upfront cost of the handsets. PRODUCTS THAT FOCUS ON CUSTOMER EXPERIENCE HELP BUILD BRAND LOYALTY Apple’s products are positioned at the higher end of their categories and are supported by a superior customer experience that in turn generates tremendous customer loyalty, as evidenced by Apple’s industry leading customer satisfaction and loyalty ratings. This product positioning allows the company to command premium pricing and generate outsized returns relative to industry peers. Apple’s long history of marrying aesthetically appealing industrial design with top engineering capability has produced groundbreaking products that drive the majority of the company’s sales. The company has rarely been the first to launch products, but its differentiation has been in taking existing products or concepts and embedding intuitive functionalities that simplify the complex technologies for non-tech-savvy customers. The company has successfully deployed this formula from its early Macintosh personal computer to the introductions of the iPhone, the iPad, and more recently Apple Watch, Apple Pay, Apple Music streaming service, and the re-launch of Apple TV. We also think that Apple’s broad installed base of iOS and Mac OS devices gives it a tremendous platform to monetize the user base with subscriptions, accessories or peripherals. UNIQUE ECOSYSTEM LEVERS HARDWARE AND SOFTWARE INTEGRATION ON A COMMON PLATFORM ACROSS PRODUCT CATEGORIES The commonality of Apple’s operating systems across its desktop/notebook and mobile platforms, and a critical mass of users make it the preferred destination for third-party application developers to launch new products. The uniqueness of Apple’s hardware/software ecosystem is evident in the company’s revenue growth over the past decade, even as other hardware-centric companies have seen significant revenue erosion. We believe that maintaining a leading platform for the most popular applications and software will ensure greater product and brand longevity than relying on commoditized hardware to grow sales. We think that Apple’s iOS mobile platform will remain an important destination for third party programmers. Right now, top app developers generate more revenues from Apple’s App Store than they do from their share of mobile advertising through Google’s competing Android mobile operating system. Although Android is more broadly distributed around the world and has a far greater share over Apple in mobile operating system deployments, programming Android applications is more complex given the wider variety of Android system versions and device manufacturer specifications in the market. COMPANY’S POSITION AS THE INDUSTRY BELLWETHER INVITES COMPETITIVE RESPONSE AND INCREASED REGULATORY SCRUTINY We also assume that Apple’s product refreshes will continue to follow historical patterns. However, history of technology and consumer electronics industries has consistently demonstrated that disruptive technologies will arrive and incumbents are not necessarily the ones who will benefit. Thus, Apple’s credit profile is tied to the company’s ability to continue keeping up with innovations and to maintain its unique corporate culture and emphasis on integrated design and engineering. As Apple expands its geographic reach and product scope to manage greater portions of its customers’ digital lives, regulators across the world are becoming more active in trying to oversee the company’s business, including increased scrutiny of its tax arrangements (similar to many large technology companies).

Liquidity Analysis

The company has extremely strong liquidity, underpinned by about $233 billion of cash and equivalents at March 26, 2016 (with about $24 billion, or 10%, within the U.S.). The company manages its internal cash needs through its significant cash holdings and a newly implemented commercial paper program. We expect commercial paper utilization of up to $10 billion to be used to manage the company’s short term cash needs. Apple will not have a bank backstop liquidity facility in place and will rely instead on its very high cash and investments balances, including U.S. cash, to meet commercial paper maturities if needed. The lack of a committed backstop liquidity facility is very unusual among U.S. non-financial corporate issuers, despite Apple’s uncommonly large cash holdings. Given our expectations of relatively high commercial paper issuances, we expect Apple to prudently manage the commercial paper maturities and to ensure that sufficient domestic cash will be immediately available to be the primary source of liquidity to meet maturing commercial paper obligations. With cash immediately available, Apple should have the flexibility to monetize its longer-dated or foreign-held investments in time if the need arose. Despite Apple’s announced $250 billion, four and a half year (through March 2018) capital return program, we think that over the next few years the company is likely to continue to maintain net cash balances in excess of $100 billion, which is significantly more than those of any other non-financial company globally. We note that, absent borrowing, the company’s US cash position will decline substantially as it completes the current capital return program and begins any new programs unless the US corporate tax laws are changed or the company finds other mechanisms to repatriate the overseas cash at favorable tax rates. We also note the company’s favorable working capital position, based on the relationships the company has with its carrier customers, which has been a source of cash historically during its hyper growth periods.

Detailed Rating Considerations

Continued from Page 2
Apple Inc. is a leading global designer, manufacturer and seller of premium mobile devices, tablets, personal computers, and consumer electronics. Through its fully integrated operating system, Apple delivers mobile, digital and cloud applications and services.

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Aaa  Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa   Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A    Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Baa  Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
Ba   Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
B    Obligations rated B are considered speculative and are subject to high credit risk.
Caa  Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
Ca   Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C    Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Rating Outlooks
A Moody’s rating outlook is an opinion regarding the likely direction of a rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV — contingent upon an event). In the few instances where an issuer has multiple outlooks of differing directions, an “(m)” modifier (indicating multiple, differing outlooks) will be displayed, and Moody’s written research will describe any differences and provide the rationale for these differences. A RUR (Rating(s) Under Review) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, NOO (No Outlook) may be displayed.

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Moody’s uses the Watchlist to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

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