OPENING STATEMENT OF PETER OPPENHEIMER

CHIEF FINANCIAL OFFICER

APPLE INC.

BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

US SENATE

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Good Morning Chairman Levin, Ranking Member McCain, and Members of the Subcommittee. My name is Peter Oppenheimer, and I am Apple's Chief Financial Officer.

I would like to discuss the structure and management of Apple's global business and financial operations.

In the U.S., our operational structure is quite simple. We sell to our customers through our retail stores, online store, and channel partners. We provide award-winning support to our customers through the Genius Bar and Applecare. We pay taxes to federal, state, and local governments on the full profits from these sales.

Outside the U.S., we seek to provide the same industry-leading products, services and support that our U.S. customers have come to expect. We now sell iPhone and iPad in over 100 countries. Like all multinational companies, Apple must follow the local laws and regulations in each region where we operate. This often requires Apple to establish a physical presence not only in the region, but also in the particular country where we wish to sell our products and services.

Apple's presence in these countries often takes the form of Apple-owned subsidiaries. These in-country subsidiaries acquire products to sell in their markets through Apple-owned regional operating subsidiaries, which in turn acquire products from our contract manufacturers.

In the European region, our primary operating subsidiaries are incorporated in Ireland. These subsidiaries, which were established in the early 1980s, now employ nearly 4,000 employees in Ireland. And we recently broke ground on an expansion to our campus in Cork.

Since 1980, Apple has had an R&D cost sharing agreement with our Irish subsidiaries. The agreement was first put in place when Apple was about five years old and wanted to sell its computers overseas. At that time, Apple's revenues were less than one tenth of one percent of

what they are today, and the invention of the iPhone was decades away. Today, the substance of the agreement is largely unchanged except for our expansion into more countries and recent updates to comply with new U.S. Treasury regulations.

Our cost sharing agreement, which is common in the industry, is audited by the IRS, and we are in full compliance with all laws and regulations. The agreement enables Apple to share the costs and risks of developing new products with our Irish subsidiaries. Virtually all this R&D – and the jobs that go with it – take place in the U.S. In exchange for this funding, the Irish subsidiaries have rights to distribute in Europe and Asia products created from the R&D funded by the agreement.

We have used this method to distribute our products internationally for over 30 years. More than half of our ongoing R&D costs are funded by Apple Ireland. When times are good, as they have been in recent years, our Irish subsidiaries benefit greatly as we do in the U.S. When Apple lost money in the mid-1990s, our Irish subsidiaries lost money as well.

I mention losing money in the 1990s because it serves as a reminder of how close Apple came to going out of business. In 1997, we were on the brink of bankruptcy and about out of cash. In just two years, we had lost $2 billion. I can tell you firsthand, we were facing the very real possibility of a world without Apple.

A big part of our turnaround was a companywide effort to streamline and simplify so Apple could survive. We restructured our operations and finances to make everything as simple and efficient as possible.

As part of that effort, we consolidated our European post-tax income into two existing Irish subsidiaries: a holding company, Apple Operations International or AOI, and an operating company, Apple Sales International or ASI.

This consolidation eliminated enormous complexity in handling foreign bank accounts and improved our ability to manage currency risk. While AOI and ASI are both incorporated in Ireland, neither is tax resident there under the rules of Irish law. Indeed, Irish law contemplates that companies may be incorporated in Ireland without being tax resident there.

The fact that AOI and ASI are not tax resident in Ireland does not reduce our U.S. taxes at all. The profits held by AOI and ASI have already been taxed by foreign governments according to the local laws where the money is earned. The investment income on their cash holdings is taxed by the U.S. at the corporate tax rate of 35%.

Apple could certainly choose to manage foreign, after-tax profits in its numerous foreign subsidiaries without moving the cash to AOI and ASI. But that would have absolutely no effect on the taxes we pay in the U.S. However, eliminating this central cash management function would be inefficient. Managing large pools of cash centrally, rather than in many places around the world, reduces complexity, better protects the assets, and helps us earn higher returns through economies of scale.

Today, Apple is in the fortunate position of having more cash from international operations than we need to run our company and pursue strategic opportunities. Some observers have questioned Apple's decision to fund part of its capital return to shareholders by issuing $17 billion in debt rather than repatriating foreign earnings. Apple respectfully suggests that any objective analysis will conclude that this decision was in the best interests of our shareholders. If Apple had used foreign earnings to return capital, the funds would have been diminished by the very high U.S. corporate tax rate of 35%. By contrast, given today's historically low interest rates, the cost of issuing debt was less than 2%.

Mr. Cook, Mr. Bullock, and I will be happy to answer any questions. Thank you.