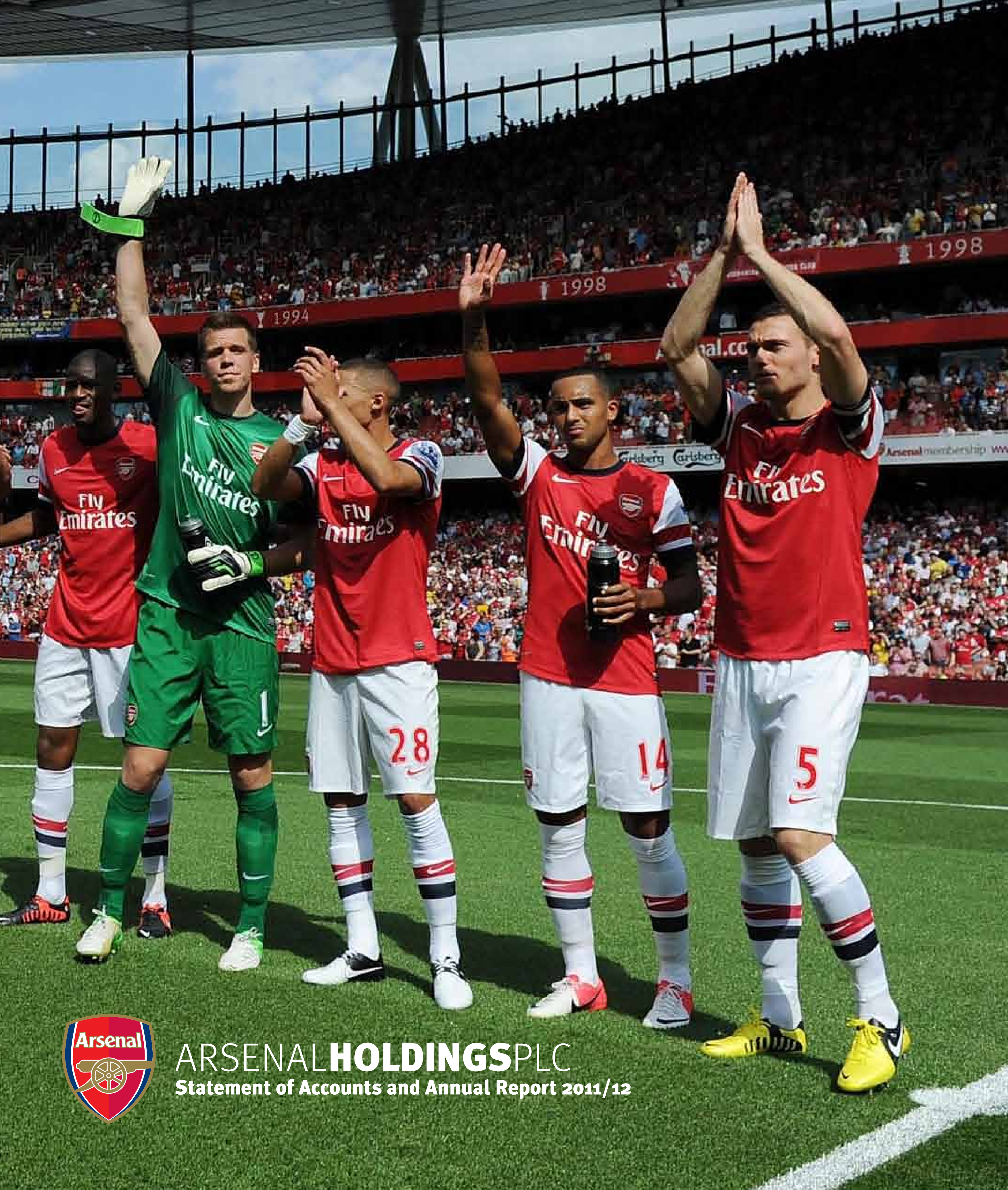


# ARSENAL**HOLDINGS**PLC
**Statement of Accounts and Annual Report 2011/12**

# DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

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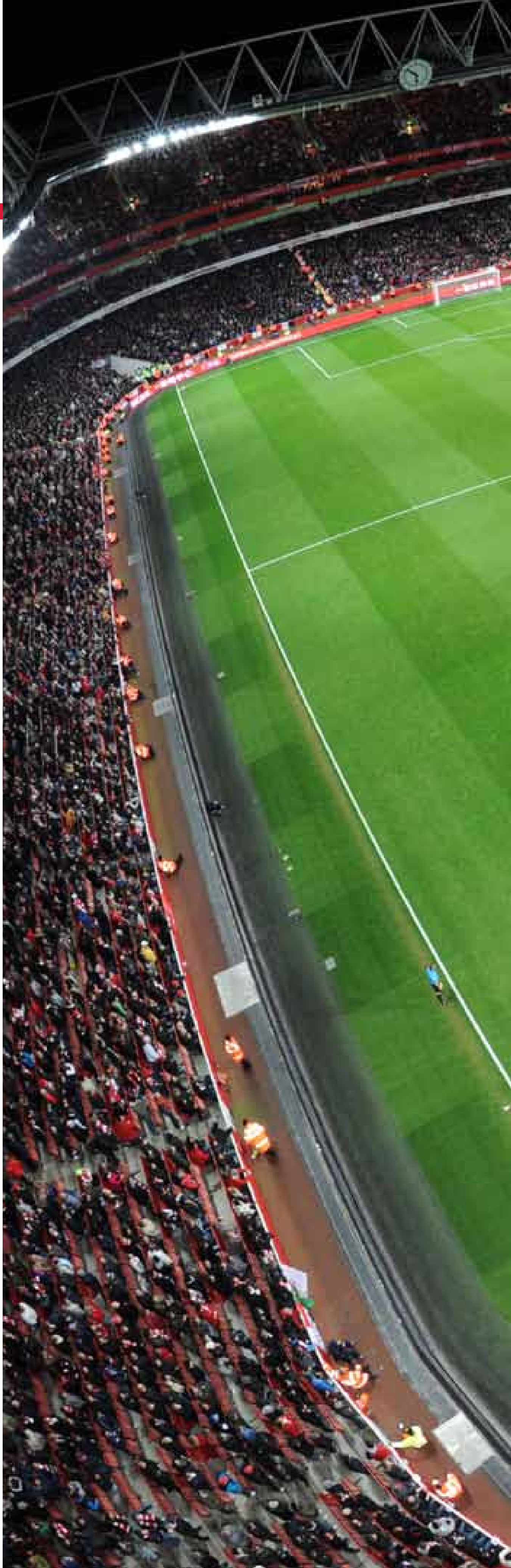
# FINANCIAL HIGHLIGHTS

| | 2012 £m | 2011 £m |
|---|---|---|
| **Revenue** | | |
| Football | 235.3 | 225.4 |
| Property | 7.7 | 30.3 |
| Group | 243.0 | 255.7 |
| **Wage Costs** | 143.4 | 124.4 |
| **Operating Profit** (excluding player trading, exceptional items and depreciation) | | |
| Football | 32.3 | 45.8 |
| Property | 2.2 | 4.7 |
| **Group** | 34.5 | 50.5 |
| **Profit on player sales** | 65.5 | 6.3 |
| **Group profit before tax** | 36.6 | 14.8 |
| **Financing** | | |
| Cash | 153.6 | 160.2 |
| Debt | (252.5) | (258.0) |
| **Net Debt** | (98.9) | (97.8) |



# CHAIRMAN'S REPORT

I am pleased to open my report to shareholders by confirming that the Group has delivered another healthy set of full year results. As I have said before, this is important as it maintains the platform from which the Club can continue to build and succeed on the pitch.

Everyone on the Board is firmly committed to our self-financing approach and it is one we will continue to pursue. We remain convinced it is in the best interests of Arsenal Football Club in both the short and long term and that has to be our primary concern. UEFA's new financial regulations have added a further emphasis to the need for a sound financial model. We have great unity and solidity around the Board table and this resolve and team spirit is present throughout the Club and has contributed to delivering 15 consecutive seasons of Champions League football; a rare achievement and one of which we should all be very proud.

As you will read elsewhere in this report, despite a tough economic backdrop, we have grown our football revenues. This is pleasing because growth is an essential target for the Group if we are to continue to compete at the top of the game here in England and in Europe.

Turning to the past season, which marked our 125th anniversary, the team produced a terrific run of form from the autumn onwards to achieve third place in the Premier League and secure Champions League football for the 2012/13 season. The arrival of some experienced players brought additional resolve to the side and helped offset the disappointing loss of Jack Wilshere who missed the entire season through injury. Robin van Persie led the side superbly, scoring 30 Premier League goals, and while we made the difficult decision to transfer him, we wish him well in the future.

> "THE TEAM PRODUCED A TERRIFIC RUN OF FORM FROM AUTUMN"

We saw Wojciech Szczesny establish himself as our first-choice goalkeeper and were excited by the youthful exuberance of Alex Oxlade-Chamberlain. In keeping with our long tradition of encouraging young talent, we also saw Aaron Ramsey return successfully after injury and welcomed Carl Jenkinson, Francis Coquelin and Emmanuel Frimpong into the first

team squad.

Whilst youth was very much to the fore we were delighted to welcome back an old friend in the shape of Thierry Henry. It was great to see him back in the Arsenal colours, delighting us all with that goal against Leeds United in the FA Cup. It was a special moment.

Ironically Thierry had been with us just a few weeks earlier when we unveiled tribute statues to him, Tony Adams and Herbert Chapman as part of our 125th anniversary celebrations.

Our Champions League run ended in the Round of 16 in a dramatic match against AC Milan. 4-0 down from the first leg, the team almost pulled off a remarkable comeback in a thrilling night at the Emirates Stadium, eventually losing out 4-3 on aggregate. We went out of the FA Cup in the fifth round away at Sunderland and at the quarter-final stage of the Carling Cup, when a young team lost narrowly at home to Manchester City.

> "MOST IMPORTANTLY I WOULD LIKE TO THANK OUR LOYAL FANS"

Everything remained very tense in the Premier League with important victories at home to Tottenham and Newcastle which remain vivid in the memory. Ultimately third place was secured with victory at West Bromwich Albion on the final day of the season.

That final day victory also marked the retirement of Pat Rice after 44 years' service to the Club as a player and coach. His contribution over those years has been immense and he will always be part of the fabric of this Club. We wish him a relaxing and happy retirement.

Away from the football you will read in the following pages that we have reported a profit before tax of £36.6 million (2011 - £14.8 million).

We have invested further in the team and in the Club's infrastructure as a whole and this will continue. That is why our activities to increase revenue are important. Increased revenues allow us to continue to be competitive and to keep pace with the ever present cost pressures in the game.

I am pleased at the progress being made on our commercial agenda. New partners have joined the Arsenal family and I am confident we will see further commercial growth over the next few years. Arsenal has a name and fanbase which extends around the world and which represents an attractive proposition to both our existing and potential new business partners.

Another important feature of the year was the launch of the Arsenal Foundation. This is a fundraising and grant-making organisation which will help to grow the reach and impact of the many and varied community and charitable programmes which the Club supports. In addition, we enjoyed a successful first year of our global partnership with Save the Children. More information on our community activities can be found on page 28.

Finally and most importantly, I would like to thank our loyal fans. Your strength of support grew through the season and was an important factor in securing our position in the Champions League. I know the vast majority of you are proud about how we run the Club and how we play under Arsène Wenger's guidance. I thank you for your continued support.

I also thank my fellow directors, our management team and entire staff for all their hard work and dedication over the last year. We stuck together as a team on and off the pitch and were stronger for it. I also fully recognise the support and contribution from our commercial partners.

I look forward to welcoming you all again to Emirates Stadium over the course of the new season.

PD Hill-Wood

**P D Hill-Wood**
**Chairman**
27 September 2012

# CHIEF EXECUTIVE'S REPORT

**Overview**

Throughout its history Arsenal Football Club has set and operated to the highest standards, both on and off the pitch. That has often meant refusing to follow the crowd and sticking to our principles. It is an approach which has served us well over the past 125 years and it is an approach which I believe is even more important today as we see clubs struggling to keep pace with the financial demands of the modern game.

We have faced criticism for sticking to our philosophy of living sustainably within our financial means rather than reaching out for a quick fix injection of money to solve all our supposed problems. But how much is enough to outspend others who have seemingly limitless means? We can and will forge our own path to success and avoid the many examples of clubs across Europe struggling for their very survival after chasing the dream and spending beyond their means.

Football is moving powerfully in our direction. This season is the first in which UEFA's Financial Fair Play ('FFP') regulations come into effect. These regulations have support from all the leading clubs in Europe and UEFA have assured clubs that the rules will be implemented rigorously. I believe there is already evidence of changing behaviour from many clubs and this is good for football.

In addition there are continuing discussions at the Premier League towards the introduction of similar measures domestically, designed to ensure that all Premier League clubs operate within their means.

Clubs, fans and other stakeholders in the game are demanding a more rational financial approach and this reinforces our conviction that our Club is strongly placed to succeed over the long term. We have qualified for the Champions League for the 15th season in a row whilst off the pitch we have a business strategy and infrastructure that is helping us to grow our revenues. This revenue growth will provide sustainable funds for future investment in the team whilst keeping within the FFP requirements.

I want to be clear that the money we generate is available to our manager, Arsène Wenger, and that he quite rightly makes the decisions regarding how to invest those funds based on his extensive football knowledge, experience and judgement. Over the years, his decisions and his management have propelled us to the top of the game in Europe (currently ranked sixth by UEFA) while playing some of the most attractive football in the world.

Looking to the current campaign we are pleased with the strength in depth we have across the squad. We have added some top quality players in the shape of Santi Cazorla, Lukas Podolski and Olivier Giroud, and they will be supplemented by the returns from injury of Abou Diaby and Jack Wilshere and the continued emergence of young talent in line with our ongoing philosophy.

> "THE MONEY WE GENERATE IS AVAILABLE TO OUR MANAGER"

We are confident in our ability to have a successful season. Everyone at Arsenal, Board members and staff alike, want the Club to be successful and to make our supporters proud. That is our focus every day. That is why we are here.

**On the pitch**

The Club's 125th anniversary season had us all on the edge of our seats as it went right to the final kick of the final game. The fact the team finished third and qualified for the Champions League for the 15th season running was a tremendous feat given our challenging start to the Premier League season. Qualifying for the Champions League almost seems to be taken for granted at Arsenal but we should never under-estimate the achievement, particularly in the increasingly competitive landscape within the Premier League.

In many ways one of our biggest games of the season came way back in early August when we travelled to Udinese for the Champions League qualifier second leg. A hard-fought victory, over a team which went on to compete for the Italian title, was crucial and gave us the platform for another exciting campaign of Champions League football which ultimately ended in dramatic fashion against AC Milan in the Round of 16.

In the Barclays Premier League a magnificent run of form from October to February pulled us into the Champions League qualification race. Over that spell our results and form were as good as any team in the League. Central to that achievement was Robin van Persie's remarkable run of goal-scoring and none of us should forget the memorable return by Thierry Henry who gave everyone a huge lift with his presence.

We went out of the FA Cup at the hands of Sunderland in the Fifth Round and our Carling Cup run finished in the quarter finals when a young side ran Manchester City extremely close.

As the Chairman rightly notes, we said farewell to our Assistant Manager Pat Rice after 44 years' loyal service as a player and coach. Pat's contribution to Arsenal has been immense and he will be sorely missed but we wish him a happy and much deserved retirement.

Steve Bould has been promoted, from running the Under-18s, to become Arsène's assistant and he has been joined as a first team coach by Neil Banfield. They are both already adding a lot to the first team setup.

**Arsenal Ladies**

Arsenal Ladies have enjoyed yet another stand-out year. They reached the semi-finals stage of the UEFA Women's Champions League for a second season running and a strong start to the new Women's Super League campaign leaves them well placed to defend their domestic crown in 2012. They also stand a chance of claiming the Continental Cup for a second consecutive year, with a place in October's final already secured.

Many of the team have also excelled on the international stage this year. We were exceptionally proud to see Rachel Yankey equal the record for all-time England appearances back in June and were delighted to see six Arsenal Ladies players help Team GB to the quarter finals of the Olympic Football Tournament. For club and country, the team have once again been fantastic ambassadors for Arsenal.

> "PAT'S CONTRIBUTION TO ARSENAL HAS BEEN IMMENSE"

**Youth development**

Youth development is the lifeblood of the Club and we have welcomed Terry Burton to the Club to work as our Reserve Team and Head Development Coach. He will be working closely with Liam Brady as the Premier League's new Elite Player Performance Plan comes into being. EPPP is aimed at raising player development standards across English football and will provide a new level of competition for players at the Under-21 level. The NextGen competition, which brings together youth teams from some of the top clubs in Europe, is another interesting development which will also provide an excellent test of our younger players' abilities this season.

**Business update**

The financial results for the year, which are covered in more detail in the Financial Review section, are solid. I always reinforce the point that our goal is to increase revenue for re-investment in the team and the Club and in this regard we continue to be in excellent shape financially.

Our business plan anticipates significant growth in the Commercial areas of our operation

CHIEF EXECUTIVE'S REPORT

and we are making good progress against the targets that have been set.

**Commercial Partnerships**

We continue to be successful in attracting top brands to sign on as Commercial partners, largely because the proposition we offer is strong. Brands are primarily attracted by our heritage, our global reach and our values. Our proposition has been appreciably enhanced by our tour strategy, which helps to engage and grow our already significant fanbase around the world.

To find the right brands to associate with we work closely with companies to understand their businesses, demonstrating how a tailored partnership with Arsenal can help in achieving their strategic priorities. Through this approach, we have recently brought on board two new regional partners in Bharti Airtel (one of the world's leading mobile operators), and Malta Guinness (a brand of the Diageo group). We have also signed tour partnerships with both Nike and Emirates, separate to our existing deals with those two brands.

"THE PROPOSITION WE OFFER TO BRANDS IS STRONG"

In addition to our work attracting new partners to Arsenal, we continue to work successfully with our existing partners in supporting their priorities. Some highlights from this year include:

- Nike: A far-reaching 125th anniversary campaign including the production of a bespoke playing kit and crest for the season, an exhibition in the Saatchi Gallery, a documentary by Ridley Scott films and a social media campaign generating fan content from 179 countries.
- Citroen: Working with the English National Ballet to launch Citroen's new DS5 car, an advert seen over a million times on YouTube.
- Carlsberg: Launching the Carlsberg Lounge at the Emirates Stadium and hosting the final of the nationwide Carlsberg Pub Cup at the Emirates.
- Indesit: An integral part of a pan-European 'Football Talent' campaign to find high quality players, allowing them to compete in a final competition at the Emirates.

Looking forward to the next financial year, our key Commercial priorities are to continue to grow our regional and official partner areas and to significantly progress conversations on our shirt and kit partnerships. These major partnerships are up for renewal at the end of season 2013/14 and are an area where we plan to deliver a significant uplift in revenue.

**Growing global support**

A key part of our strategy to develop increased revenues centres on our ability to build our name around the world and to reach and connect with more and more fans. In the past two summers, the tours to Asia, where we have a huge following, have helped significantly in this regard. For example, we now have 600,000 regular Arsenal supporting visitors to our Chinese website and a growing number of supporters' groups.

We already have more than 11 million Facebook followers and up to seven million unique monthly visitors to www.Arsenal.com, from all around the globe. This clearly demonstrates the depth of our following and is something we will continue to build.

**Retail ambitions**

Development of our retail business has been another area of significant activity during the past year. We have transformed our online offering, Arsenal Direct, by investing in technology that makes it easier to use and we have dramatically improved our own-brand clothing range. Going forward we will be looking to sharpen our focus on the


Fly
Emirates
Kitchee vs Arsenal


EMIRATES STADIUM
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international opportunities available to us, many of which will be driven by our expanding online offering.

**Concerts**

The success of the three Coldplay concerts at the Emirates Stadium in early June put us on the map as a concert venue. These sell-out shows attracted almost 180,000 music fans and the way the Club managed the events has led to further interest from concert promoters for future events. Indeed we already have a booking for the American rock group Green Day to play at Emirates Stadium on June 1 next year. This is exciting news and gives us a strong and hopefully regular source of additional income from our stadium.

**Community activities**

Our contributions to local communities here in the UK and further afield are an important part of our role as a football club. The Arsenal name allows us to open doors for people, and young people in particular, to find help and opportunities which may have otherwise passed them by.

As part of the Club's 125th anniversary, we launched The Arsenal Foundation to help us engage and assist more young people than ever before. The Arsenal Foundation is a fundraising and grant-making organisation. It will help grow the reach and effect of the charitable and community programmes which the Club supports.

In addition, we have enjoyed a successful first year with our first global charity partner, Save the Children.

**Prospects**

Our supporters continue to show fantastic commitment to the Club. Once again we have started the new season with general admission and Club Tier season tickets fully subscribed. Bearing in mind the current economic climate that is testimony to our fans' loyalty and we are delighted to have this continued depth of following.

Even though the market is more challenging than it has been for many years, due to the financial difficulties being experienced around the world, I am confident about the momentum we are building on our Commercial agenda.

The Premier League has announced strong growth in the value of its domestic TV rights from the start of next season. This will provide clubs with a significant boost to their revenues. At Arsenal we will look to ensure that these additional funds are spent responsibly to move the Club forward and we hope that this is an approach which will be adopted by others.

> "WE HAVE A GOOD BLEND OF YOUTH AND EXPERIENCE"

On the pitch we have come into the season with a strong and talented squad. We have made some exciting additions and some of our younger players who broke through last season will build on that experience and make an even greater contribution this time round. We have a good blend of youth and experience and have already shown a defensive resilience which should stand us in good stead as the campaign progresses.

We look forward to the rest of the season with excitement and optimism and will continue to work hard to take the Club forward and to make everyone proud to be part of the Arsenal family.

**I E Gazidis**
**Chief Executive Officer**
27 September 2012

# FINANCIAL REVIEW

The Group has recorded an increased profit before tax for the year of £36.6 million (2011 - £14.8 million). Player trading in the summer 2011 transfer window and investment in the player wage bill has significantly influenced this result. The 2011/12 year is the first to be included in the break even monitoring arrangements which form the backbone of UEFA's Financial Fair Play regulations. The result achieved is a robust demonstration of Arsenal's compliance with the new regulatory regime.

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| **Group turnover** | 243.0 | 255.7 |
| **Operating profit before depreciation and player trading** | 34.5 | 55.3 |
| Player trading | 26.1 | (14.6) |
| Depreciation | (11.4) | (12.5) |
| Joint venture | 0.9 | 0.8 |
| Net finance charges | (13.5) | (14.2) |
| **Profit before tax** | 36.6 | 14.8 |

As expected, with Highbury Square almost entirely sold, there was a much reduced level of sales activity in our property business during the year, with a turnover of £7.7 million as compared to £30.3 million for the prior year. On the other hand revenues in our football business grew to £235.3 million from £225.4 million. This represents a strong performance in the prevailing difficult economic climate and, with our commercial activities delivering more than half of this turnover growth, we are beginning to show a clear positive return against recent years' and ongoing investment in the Group's commercial capabilities.

In addition to the above, operating profit has been impacted by higher overall staff costs of £143.4 million (2011 - £124.4 million). In the main, this reflects a further step up in our investment in the player wage bill but there has also been an increase in the wage costs of our football training and support staff together with the need for an increased provision against our share of the liabilities in the Football League Pension Scheme.

Player trading consists of the profit from the sale of player registrations, the amortisation charge, including any impairment, on the cost of player registrations and fees charged for player loans. The profit on sale for the year amounted to £65.5 million (2011 - £6.3 million) with the major contributions to this figure coming from the transfers out of Cesc Fabregas, Samir Nasri and Gael Clichy. During the period we invested £78.3 million in the acquisition of new players and, to a lesser extent, the extension of contract terms for certain existing players. The cost of this investment is being charged against profit over the life of the underlying player contracts and, as a consequence, the amortisation charge for the year was increased to £36.8 million (2011 - £21.7 million). In addition to the regular amortisation, an impairment charge of £5.5 million (2011 - £Nil) has been booked against the carrying value of certain player registrations. The charge relates to the registrations of players who are deemed to be excluded from the Arsenal squad.

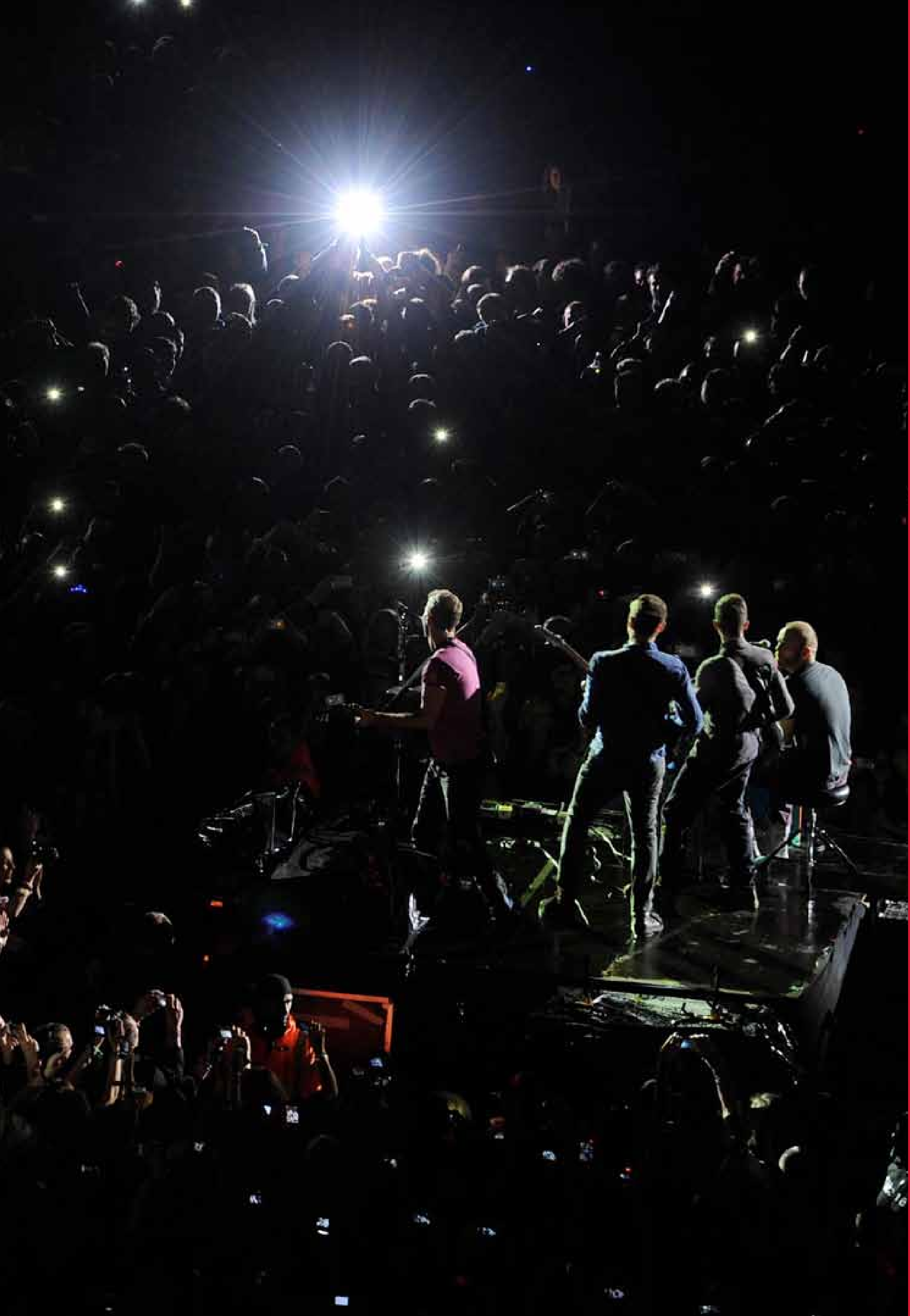
Net finance charges have been reduced to £13.5 million (2011 - £14.2 million). This reflects the scheduled repayment of stadium finance bonds, leading to a lower interest payable charge, and also an improved return earned on our cash balances. At the balance sheet date, the Group's cash and bank balances amounted to £153.6 million (2011 - £160.2 million) and the Group's overall net debt was £98.9 million (2011 - £97.8 million).

### Football Segment

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Turnover | 235.3 | 225.4 |
| Operating profit before depreciation, player trading and exceptional items | 32.3 | 45.8 |
| Player trading | 26.1 | (14.6) |
| **Profit before tax** | 34.1 | 2.2 |

Ticket prices for the 2011/12 season rose in line with inflation. There were 29 home fixtures (19 Barclays Premier League, five UEFA Champions League, two E.on FA Cup and three Carling Cup). This was


8
money



one more home fixture than in the prior year and the mix of games was also more favourable, with an extra game played in the Champions League, however, there was no repeat of the run to the 2011 Carling Cup final. As a result, matchday revenue was overall slightly higher at £95.2 million (2011 - £93.1 million). Excluding the Carling Cup fixture against Shrewsbury (46,539) the average ticket sales per game was 59,772 (2011 – 59,849).

Broadcasting revenues were little changed overall at £84.7 million (2011 - £85.2 million) with an additional Champions League round balanced by a worse £:€ exchange rate on converting these UEFA revenues and lower TV receipts from the domestic cup campaigns.

Growing the Group's commercial revenues is a key business target and I am pleased to report that combined retail and commercial revenues were increased to £52.5 million (2011 - £46.3 million). The main driver for this 13% growth has come from commercial partnerships with the successful addition of new categories, for example Indesit, and the renewal of a number of existing categories, such as Citroën, on improved terms. The summer tour to Malaysia and China made a significant contribution in supporting our international strategy for growing partnership revenues. Our rebranded online store, Arsenal Direct, led the way in terms of growth in retail sales and royalties from product licensing was also improved.

In terms of costs, the main change has already been referred to above, namely the increase in wage costs to £143.4 million (2011 - £124.4 million). The wage bill represented 60.9% of our football revenues (2011 – 55.2%). Included in the wage cost is a one-off charge of £2.2 million to top up the Group's provision against its share of the deficit in the now closed final salary section of the Football League pension scheme, following the latest triennial valuation of the scheme.

Although further headcount was added to support and drive the Club's commercial business objectives, the increased total wage cost was very largely attributable to the player wage bill and, to a lesser extent, wage costs for the training and support staff around the first team squad. The investment in player wages, which represents not just a significant current cost but also a high level of committed future cost, continues to be underwritten by the Group's accumulated property profits and cash reserves.

Other operating costs, which include all the direct and indirect costs and overheads associated with the Club's football operations and revenues, rose to £56.7 million (2011 -£54.5 million). The main change being an increase in football operations costs from £10.7 million to £12.5 million; there were a number of underlying reasons including increased spend on player insurance premiums, medical expenses, costs of team travel in Europe, scouting and analysis costs.

**Property Segment**

| | 2012 £m | 2011 £m |
|---|---|---|
| Turnover | 7.7 | 30.3 |
| Operating profit before exceptional items | 2.2 | 4.7 |
| Reversal of impairment provision | - | 7.9 |
| Profit before tax | 2.5 | 12.6 |

Turnover from property was derived from the final stages of the sale of flats in the Highbury Square development. Sales progress has been slow but steady as we have sought to optimise sales values achieved. 12 flats were sold during the period, bringing the cumulative sales up to 651 of 655 market housing apartments within the development. Since the year end we have completed the sale of another three units and the remaining flat will be retained by the Group.

The construction and refurbishment works on a small number of properties owned by the Group in the roads immediately adjacent to Highbury Square continued throughout the year and the first block of eight flats was released for sale at Easter with all units reserved within a very short time. So far five of these sales have progressed to completion since the year end. This project will also deliver ten houses for sale once building works have completed in the early autumn.

The major construction works at Queensland Road being undertaken by Newlon Housing Trust continue to progress. Newlon will shortly be joined on site by Barratt who will be developing the area to the north-east and adjacent to the stadium podium to provide three towers of market residential accommodation. The Group completed the sale of this plot to Barratt at the end of June and accordingly the revenues and costs associated with this contract will be recognised in the Group's profit and loss account for the 2012/13 financial year; the proceeds of £26 million are receivable in instalments over a two-year period.

We continue to work with Islington Council's planning department to determine the optimum development schemes for our two remaining property sites on Hornsey Road and Holloway Road.

**Profit after Tax**

The tax charge for the year was £7.0 million (2011 – £2.1 million). The effective rate of taxation of 19.1% benefits from the revaluation of the Group's deferred tax liabilities to the 24% rate of corporation tax effective from April 2012.

The retained profit for the year was £29.6 million (2011 - £12.6 million).

**Capital Investment**

Expenditure of £7.3 million on fixed assets included enhancements to Club Level and further Arsenalisation projects at the stadium, completion of the new medical block and new pitches at the London Colney training ground and the first phase of a major project to provide the Club with a first class Customer Relationship Management system.

Looking ahead, the Club is in the process of agreeing the necessary planning consents for a major development of its youth development training facility at Hale End.

**Risks and Uncertainties**

There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance. The Board meets regularly during the year, either by telephone or on a face to face basis, and monitors these risks on a continual basis. In addition, the management of day to day operational risk is delegated to the Group Executive (the senior management team including both the executive directors).

The key business risks and uncertainties affecting the Group are considered to relate to:

- the performance and popularity of the first team;
- the recruitment and retention of key employees;
- the rules and regulations of the applicable football governing bodies;
- the negotiation and pricing of broadcasting contracts; and
- the renewal of key commercial agreements on similar or improved terms.

The Group's income is affected by the performance and popularity of the first team and significant sources of revenue are derived from strong performances in the Premier League, FA Cup and UEFA Champions League (or the Europa League). The Group seeks to maintain playing success by continually investing in the development of its playing squad and it enters into employment contracts with each of its key personnel with a view to securing their services for the term of the contract. However, the Group operates in a highly competitive market in both domestic and European competition and retention of personnel cannot be guaranteed. In addition, the activities of the Group's main competitors can determine trends in the market rates for transfers and wages that the Group may be required to follow in order to maintain the strength of its first team squad.

The Club is regulated by the rules of the FA, Premier League, UEFA and FIFA. Any change to FA, Premier League, UEFA and FIFA regulations in future could have an impact on the Group as the regulations cover areas such as: the format of competitions, financial fair play, the division of broadcasting income, the eligibility of players and the operation of the transfer market. The Group monitors its compliance with all applicable rules and regulations on a continuous basis and also monitors and considers the impact of any potential changes.

Broadcasting and certain other revenues are derived from contracts which are currently centrally negotiated by the Premier League and, in respect of European competition, by UEFA; the Group does not have any direct influence, alone, on the outcome of the relevant contract negotiations. The Premier League currently sells its TV rights on a three-year contract basis and 2012/13 is the final year of the current contract. The next UK Premier League TV contract has already been secured through to season 2015/16 and will show an increase in value in the order of 70%.

The Group derives a significant amount of revenue from sponsorship and other commercial relationships. The underlying commercial agreements have finite terms and, whilst the Group fully expects that the global appeal of its brand will allow its commercial revenues to grow strongly in the short to medium term, the renewal of existing contracts and / or acquisition of new partnerships cannot be guaranteed. Currently the Group's most important commercial contracts are its naming rights and shirt sponsorship contracts with Emirates Airline, which expire in 2021 and 2014 respectively, and its kit sponsorship contract with Nike which expires in 2014.

**Financial Risk Management**

The Group's operations are exposed to a variety of financial risks that include credit risk, currency risk and the risks associated with liquidity and interest rates.

The Group enters into a number of transactions, relating mainly to its participation in European competition and player transfers, which create exposure to movements in foreign exchange. The Group monitors this foreign exchange exposure on a continuous basis and will usually hedge any significant exposure in its currency receivables and payables.

The Group's policy is to eliminate, as far as possible, all of the interest rate risk which attaches to its outstanding debt finance balances. Where debt balances are subject to floating rates of interest the Group will usually enter into interest rate swaps which serve to fix the rate of interest.

The financing arrangements for the Group's football and property business segments operate independently of each other. In addition, certain minimum bank deposits are required to be maintained as part of the security for the Group's debt finance balances. The Group monitors its compliance with the applicable terms of its debt finance arrangements on a continuous basis and regularly reviews its forecast cash flow to ensure that both its business segments hold an appropriate level of bank funds at all times.

Where income from material contracts, such as player transfers, is receivable on an instalment basis then the Group will usually seek to obtain an appropriate bank or similar guarantee.

**Financial Regulation**

As we move into the early stages of UEFA's Financial Fair Play regime the topic of increased regulation in football is clearly high on the agenda. The Premier League is considering a review of its own regulatory regime and some enhancement of existing rules seems likely.

On the assumption that any new rules will be supportive of clubs who operate on a financially responsible and sustainable basis, it seems unlikely that there would be any adverse impact on Arsenal. The Club's strong financial position means we are very well placed to comply with UEFA's requirements and to pass any new tests that may be required in future; more importantly we have the sound financial platform which is vital to securing the on-field success of any football club for both the short and the long term.■

**Stuart Wisely**
**Chief Financial Officer**
27 September 2012


Fly
Emirates
18

# SEASON REVIEW

An eventful 2011/12 season for the first team ended with a third place finish and qualification for the Champions League for the 15th season in succession.

A tough start to the campaign saw August pass without a Premier League win. An 8-2 defeat to Manchester United at Old Trafford proved to be the season's lowest point. However, a strong autumn saw the Gunners' home form, in particular, push them up the table. Five consecutive league wins at Emirates Stadium between September and November were complemented by some good away results, notably a 5-3 win at Chelsea.

The specially-designated matchday to mark the Club's 125th anniversary was celebrated with a 1-0 home win over Everton but the season really took off in February. A 7-1 win over Blackburn Rovers was followed, three weeks later, by a stunning 5-2 defeat of rivals Tottenham Hotspur which came after Arsenal fought back from 2-0 down. This was followed by wins against Liverpool, Newcastle, Everton, Aston Villa, Manchester City and Wolves, as Arsenal demonstrated the capacity to win games in exhilarating, and sometimes heart-stopping, style. A wobble over the season's final few games ensured that a win at West Bromwich Albion was needed to confirm Champions League qualification and this duly arrived, by a 3-2 margin.

> "THE FA CUP SAW THIERRY HENRY SCORE A MEMORABLE WINNER"

Last season's Champions League campaign began with a fine win over a tough Udinese side in the play-off round. Arsenal then successfully navigated a group containing Borussia Dortmund, Olympiacos and Olympique Marseille, earning a tie against AC Milan in the round of 16. A 4-0 first-leg defeat proved too much to surmount, despite a 3-0 second-leg win in a thrilling match at Emirates Stadium.

The FA Cup saw Thierry Henry, on his return, score a memorable winner against Leeds United. This was followed by a dramatic comeback win over Aston Villa, but Sunderland ended Arsenal's interest in the fifth round.

Finally, another set of fantastic crowds at Emirates Stadium saw Carling Cup wins over Shrewsbury Town and Bolton Wanderers before a young side was narrowly beaten 1-0 by Manchester City.

In his final season working with the Reserves, now the Under-21s, Neil Banfield led the side to third place in the Premier Reserve League South.

A very young team, its average age decreasing as more promising Gunners went out on loan, was occasionally supplemented by first-team players recovering from injury such as Abou Diaby, Andrey Arshavin, Johan Djourou, Andre Santos and Carl Jenkinson. A total of 55 players turned out for the Reserves during the season but the side consistently played attractive football, in the Arsenal mould, and 36 goals were spread around the team. Striker Sanchez Watt led the way with seven from ten early season games with midfielder Chuks Aneke following him with six. There were consistent showings from players such as Martin Angha, the only team member to appear in all 22 league games, Kyle Ebecilio and Daniel Boateng, while Nico Yennaris was rewarded for his performances with first-team appearances in the Carling Cup, FA Cup and Premier League.

Noteworthy results included a 2-1 win over Manchester United, a late-season 1-0 win at Newcastle and a 5-0 victory over Norwich.

Working with the Under-18s for the last time before moving up to assist Arsène Wenger, Steve Bould took the young Gunners to a third-place finish in Academy Premier League Group A.

Playing plenty of exciting football, a highly promising generation of players progressed well during the campaign. Pacy winger Anthony Jeffrey won plenty of plaudits with six goals, a figure matched by dynamic midfielder Josh Rees. Jordan ▶

SEASON REVIEW

Wynter proved a consistent performer in midfield and Elton Monteiro was among those to impress at the back. Towards the end of the season, some of this season's first-year scholars, including Jack Jebb and Chuba Akpom, were also able to make their mark. A number of Academy players stepped up to feature for the Reserves over the course of the season and, in particular, Hector Bellerin, Serge Gnabry, Jon Toral and Kristoffer Olsson made impressive early strides at that level.

If the league campaign provided various highlights, 6-3 and 5-0 wins over Portsmouth being particularly memorable, along with a 3-0 win at Fulham, last season's FA Youth Cup endeavours proved short-lived, losing 1-0 to Derby County in the opening game.

Football continued to be a year-round job for Arsenal Ladies in 2011/12. European and domestic challenges being supplemented by Olympic commitments before the Women's Super League ('WSL') season resumed in August with the team looking to defend last season's title.

The Champions League was the focus during the early part of the campaign, Laura Harvey's side overcoming Bobruichanka and Rayo Vallecano to guarantee a place in the last eight.

Returning in February ahead of their second WSL season, the squad was buoyed by the returns of ex-players Alex Scott, Kelly Smith and Gemma Davison, all of whom re-signed for the Gunners after playing in the USA.

When competitive action restarted in March, a superb win over Gothenburg took the Ladies into the last four of the Champions League for the second consecutive season. Unfortunately they fell at that hurdle, losing 4-1 on aggregate to Frankfurt. That disappointment was compounded by another semi-final defeat, 2-0 to Chelsea, in the FA Women's Cup.

When the WSL took a break ahead of the Olympics, Arsenal Ladies found themselves seven points clear of the chasing pack, a gap that was still a healthy five points after the competition's resumption at the end of August.

Arsenal Ladies were also tremendously proud of their contribution in the 2012 Olympics. Alex Scott, Steph Houghton, Kim Little, Ellen White, Kelly Smith and Rachel Yankey all featured for Team GB as they reached the quarter-finals. Left-back Houghton scored three times during the group stage, including the winner against Brazil at Wembley.■


Fly
Emirates


Carlsberg
Fly Emirates


Fly Emirates

# THE ARSENAL FOUNDATION

In Arsenal's 125th anniversary year, we launched The Arsenal Foundation. The Foundation is a proactive fundraising and grant-making organisation with the aim of growing Arsenal's work in transforming young people's lives lives through a wide variety of community and charity projects.

There are countless examples of Arsenal's good work over its 125-year history and the values that led Arsenal to support Homes for Working Boys in Woolwich, the Club's original home in south London, stand as true today as they did back then.

The Arsenal Foundation will be working hard to raise funds and increase the profile of a powerful combination of Arsenal in the Community projects, charity partner initiatives – including those of Arsenal's global charity partner, Save the Children – and other inspiring causes.

The Foundation's trustees include Chief Executive Ivan Gazidis and Arsenal Director Ken Friar with Arsène Wenger as the Foundation's first Ambassador.

This year the Club raised nearly £500,000 for our charity partner Save the Children to support local and global projects. The match against

Fulham in November was dedicated to raising money for the charity. Many of our players and staff donated a day's wages and supporters got involved in a host of fundraising initiatives which took place in and around Emirates Stadium on matchday. This included Carl Jenkinson and Jack Wilshere bucket shaking outside the ground and the sale of limited edition co-branded sportsbands.

In March 2012, our fundraising activities went global when supporters from 20 countries got involved in the 'Be a Gunner. Be a Runner' event, raising more than £50,000. Around 750 runners took part at the Emirates Stadium, while supporters as far afield as Australia, India, Poland and Nigeria staged similar events.

The Club's commitment to community activities runs deep and a great number of Arsenal staff have supported the cause through their participation in a range of fundraising activities. This included the annual pub quiz, hosted by TV favourite and Arsenal fan Dermot O'Leary, as well as individuals taking part in marathons, 10k runs, the three peaks challenge and a charity cycle ride through London. Disabled Arsenal supporter Paul Smith propelled himself 200 miles in his wheelchair and raised nearly £30,000 for the cause.

# THE ARSENAL FOUNDATION

The Annual Arsenal Ball was the grand finale in the fundraising calendar which saw chart-toppers Rizzle Kicks headlining at an event attended by the manager and first team. Over £200,000 was raised and will be distributed by The Arsenal Foundation to ensure that an even greater number of young people can develop their potential.

These fundraising events have helped support local and international projects co-ordinated by Save the Children. In the UK, two local schools in Islington are enjoying the benefits of The Foundation's partnership with Save the Children, through the delivery of a programme called Families and Schools Together (FAST). FAST enables parents to develop the skills and confidence they need to better support and take a more active role in their children's education.

As part of Arsenal's Asia Tour 2012, Ivan Gazidis, Abou Diaby and Johan Djourou visited a project the Club has initiated in Beijing, which will develop over the next three years. With The Arsenal Foundation's support, Save the Children will improve the quality of education for at least 15,000 children aged six to 15 attending some of Beijing's most under-resourced and disadvantaged schools. Arsenal and Save the Children will partner to train teachers in these disadvantaged schools so that they have the skills they need to plan and deliver improved and child-friendly lessons for their students, helping them to access, engage in and reap the benefits of a life changing education.

Two football pitches, where Arsenal in the Community will deliver coaching sessions, have been upgraded thanks to donations from The Arsenal Foundation. These coaching opportunities often provide a simple route to engage young people which can subsequently develop into further opportunities for young people including accredited qualifications and life skills.

With the help of The Arsenal Foundation, the Club will ensure that its long record of helping young people become the best they can be, continues to go from strength to strength, reaching increasing numbers of young people across the globe.

Anyone wishing to make a donation to The Arsenal Foundation can do so through this website http://www.justgiving.com/TheArsenalFoundation.■


IT'S TIME TO
LAUNCH...
The Arsenal
Foundation


HELPING YOUNG PEOPLE
FULFIL THEIR POTENTIAL
The Arsenal
Foundation

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2012.

## Principal activities

The principal activity of the Group is that of a professional football club and the related commercial activities.
The Group is also engaged in a number of property developments associated with its relocation to Emirates Stadium.

## Profits and dividends

The results for the year are set out on page 37 and are considered, together with a review of the Group's business performance for the year and its future prospects, in the Financial Review section of the Annual Report.
The directors do not recommend the payment of a dividend for the year (2011 - £Nil).

## Going concern

The Group's business activities together with the factors likely to affect its future development and performance are summarised in the Chairman's Report, the Chief Executive's Report and the Financial Review. The Financial Review describes the financial position of the Group and its cash flows and liquidity position.
The Group's bank facilities are not currently due for renewal, however, the Group has held a discussion with its bankers about these facilities and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financial resources and bank facilities.
The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the financial statements continue to be prepared on the going concern basis.

## Directors

The directors of the company, all of whom served throughout the year are set out below:
◆P.D. Hill-Wood ◆K.J. Friar OBE ◆I. Gazidis ◆Lord Harris of Peckham ◆E.S. Kroenke ◆Sir Chips Keswick

## Directors Indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and remain in force at the date of this report.

## Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £70,259 (2011 - £101,834).

## Creditor payment policy

The Group's policy is to pay all creditors in accordance with contractual and other legal obligations. Advantage is taken of available discounts for prompt payment whenever possible. The rate, expressed in days, between the amounts invoiced to the Group by its suppliers in the year and the amount owing to trade and other creditors at the year end was 58 days (2011 - 57 days).

## Employees

Within the bounds of commercial confidentiality, the Group endeavours to keep staff at all levels informed of matters that affect the progress of the Group and are of interest to them as employees. The Group operates an equal opportunities policy. The aim of this policy is to ensure that there should be equal opportunity for all and this applies to external recruitment, internal appointments, terms of employment, conditions of service and opportunity for training and promotion regardless of gender, ethnic origin or disability. Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of the disability. Should, for whatever reason, an employee of the Group become disabled whilst in employment, every step, where appropriate will be taken to assist with rehabilitation and suitable retraining. The Group maintains its own health, safety and environmental policies covering all aspects of its operations. Regular meetings and inspections take place to ensure all legal requirements are adhered to and that the Group is responsive to the needs of its employees and the environment.

**Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. 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 Accounting Standards and applicable law). 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 the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to auditor**

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditor is unaware; and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.
Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

D. Miles

**D Miles**
**Company Secretary**
27 September 2012
Registered office: Highbury House, 75 Drayton Park, London, N5 1BU

# CORPORATE GOVERNANCE

The directors acknowledge the importance of the 2010 UK Corporate Governance Code and endeavour to comply with its requirements so far as the directors consider is appropriate to a Group of the size and nature of Arsenal Holdings plc.

## Directors

The Board currently consists of two executive directors and four non-executive directors. The Board meets on a regular basis to review the performance of the Group and to determine long-term objectives and strategies and is supplied with management accounts and other relevant information.

Each of the directors is subject to re-election at least every three years.

## Internal control

The Board is responsible for ensuring that the Group maintains a system of internal controls, including suitable monitoring procedures, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or loss.

The Board continuously reviews the effectiveness of the Group's system of internal controls. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

The Audit Committee assists the Board in discharging its review responsibilities.

## Audit Committee

The Audit Committee consists of two non-executive directors, Sir Chips Keswick (Chairman) and Lord Harris of Peckham.

The Committee considers matters relating to the financial accounting controls, the reporting of results and the effectiveness and cost of the audit. It meets at least twice a year with the Group's auditor.

## Nominations Committee

The Nominations Committee is chaired by Lord Harris of Peckham and its other member is Sir Chips Keswick.

The Nominations Committee reviews the composition of and succession to the Board and senior management, within agreed terms of reference, and recommends to the Board appointments of executive and non-executive directors following a formal and rigorous review process. This involves an ongoing assessment of the overall balance and performance of the Board and its individual members ensuring a strong executive and independent non-executive team. The Committee in particular considers the experience and skills of individuals who may be suitable as directors. The Committee considers and takes account of existing and proposed corporate governance requirements where relevant.

## Remuneration Committee

The Remuneration Report is set out on page 35.

### The Remuneration Committee

The Committee consists of three non-executive directors, P.D. Hill-Wood (Chairman), Lord Harris of Peckham and Sir Chips Keswick.■

### Policy on remuneration of executive directors

The purpose of the Remuneration Committee is to consider all aspects of executive directors' remuneration and to determine the specific remuneration packages of each of the executive directors and, as appropriate, other senior executives, ensuring that the remuneration packages are competitive within the industry in which the Group operates and reflect both Group and personal performance during the year.

The present opinion of the Committee is that the Group's executives are best remunerated by a salary, discretionary bonus and pension contribution, the aggregate of which is intended to reflect market conditions and the performance of the Group and of the individual.■

### Policy on remuneration of the non-executive directors

The Board as a whole sets the remuneration of the non-executive directors.■

### Directors' remuneration

A full analysis of the directors' remuneration is set out in note 7 to the financial statements.■

PD Hill-Wood

**P.D. Hill-Wood**
**Chairman of the Remuneration Committee**
27 September 2012

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL HOLDINGS PLC

We have audited the financial statements of Arsenal Holdings plc for the year ended 31 May 2012 which comprise the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 31. 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).
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 auditor**

As explained more fully in the Directors' Responsibilities Statement, 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 and express an opinion on 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 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 Group's and the parent 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 annual report to identify material inconsistencies with the audited financial statements. 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 Group's and the parent company's affairs as at 31 May 2012 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

John Murphy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Chartered Accountants and Statutory Auditor, London.
27 September 2012

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 31 MAY 2012

| | Note | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|---|
| | | Operations excluding player trading £000's | Player trading £000's | Total £000's | Operations excluding player trading £000's | Player trading £000's | Total £000's |
| **Turnover of the Group including its share of joint ventures** | | 242,577 | 2,901 | 245,478 | 257,107 | 735 | 257,842 |
| Share of turnover of joint venture | | (2,465) | - | (2,465) | (2,150) | - | (2,150) |
| **Group turnover** | 3 | 240,112 | 2,901 | 243,013 | 254,957 | 735 | 255,692 |
| Operating expenses | 4 | (217,018) | (42,319) | (259,337) | (212,128) | (21,658) | (233,786) |
| **Operating profit/(loss)** | | 23,094 | (39,418) | (16,324) | 42,829 | (20,923) | 21,906 |
| Share of joint venture operating result | | 952 | - | 952 | 822 | - | 822 |
| Profit on disposal of player registrations | | - | 65,456 | 65,456 | - | 6,256 | 6,256 |
| **Profit on ordinary activities before finance charges** | | 24,046 | 26,038 | 50,084 | 43,651 | (14,667) | 28,984 |
| Net finance charges | 5 | | | (13,496) | | | (14,208) |
| **Profit on ordinary activities before taxation** | | | | 36,588 | | | 14,776 |
| Taxation | 8 | | | (6,995) | | | (2,143) |
| **Profit after taxation retained for the financial year** | | | | 29,593 | | | 12,633 |
| **Earnings per share** | | | | | | | |
| Basic and diluted | 9 | | | £475.64 | | | £203.05 |

Player trading consists primarily of loan fees receivable, the amortisation of the costs of acquiring player registrations, any impairment charges and profit on disposal of player registrations.

All trading resulted from continuing operations.

There are no recognised gains or losses in the current or previous year other than those recorded in the consolidated profit and loss account and, accordingly, no statement of total recognised gains and losses is presented.

# BALANCE SHEETS
## AS AT 31 MAY 2012

| | Note | Group 2012 £000's | Group 2011 £000's | Company 2012 £000's | Company 2011 £000's |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible fixed assets | 10 | 427,157 | 431,428 | - | - |
| Intangible fixed assets | 11 | 85,708 | 55,717 | - | - |
| Investments | 12 | 2,326 | 1,648 | 30,059 | 30,059 |
| | | 515,191 | 488,793 | 30,059 | 30,059 |
| **Current assets** | | | | | |
| Stock - development properties | 13 | 37,595 | 33,460 | - | - |
| Stock - retail merchandise | | 1,681 | 1,114 | - | - |
| Debtors - due within one year | 14 | 52,332 | 27,435 | - | 2 |
| - due after one year | 14 | 5,201 | 2,214 | 133,001 | 131,259 |
| Cash and short-term deposits | 15 | 153,625 | 160,229 | 6,517 | 10,384 |
| | | 250,434 | 224,452 | 139,518 | 141,645 |
| **Creditors: amounts falling due within one year** | 16 | (145,159) | (131,104) | (22) | (2,528) |
| **Net current assets** | | 105,275 | 93,348 | 139,496 | 139,117 |
| **Total assets less current liabilities** | | 620,466 | 582,141 | 169,555 | 169,176 |
| **Creditors: amounts falling due after more than one year** | 17 | (268,066) | (275,912) | (14,466) | (14,117) |
| **Provisions for liabilities and charges** | 19 | (54,852) | (38,274) | - | - |
| **Net assets** | | 297,548 | 267,955 | 155,089 | 155,059 |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | 62 | 62 | 62 | 62 |
| Share premium | 21 | 29,997 | 29,997 | 29,997 | 29,997 |
| Merger reserve | 22 | 26,699 | 26,699 | - | - |
| Profit and loss account | 23 | 240,790 | 211,197 | 125,030 | 125,000 |
| **Shareholders' funds** | | 297,548 | 267,955 | 155,089 | 155,059 |

These financial statements of Arsenal Holdings Plc (registered number 4250459) were approved and authorised for issue by the Board of Directors on 27 September 2012.

Signed on behalf of the Board of Directors

P D Hill-Wood

**P.D. Hill-Wood**
**Director**

# CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MAY 2012

| | Note | 2012 £000's | 2011 £000's |
|---|---|---|---|
| **Net cash inflow from operating activities** | 25a | 27,694 | 53,142 |
| Player registrations | 25d | (1,785) | (1,528) |
| Returns on investment and servicing of finance | 25d | (13,071) | (17,220) |
| Taxation | | (4,624) | 13,664 |
| Capital expenditure | 25d | (8,610) | (9,546) |
| Net cash (outflow)/inflow before financing | | (396) | 38,512 |
| Financing | 25d | (6,208) | (5,890) |
| Management of liquid resources | | (79,633) | 49,340 |
| Change in cash in the year | | (86,237) | 81,962 |
| Change in short-term deposits | | 79,633 | (49,340) |
| **(Decrease)/increase in cash and short-term deposits** | | (6,604) | 32,622 |

Management of liquid resources represents the transfer of cash (to)/from the Group's bank accounts to short-term bank treasury deposits.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2012

## 1. Principal accounting policies

### (a) Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom Generally Accepted Accounting Practice and, as described in the Directors' Report, on the going concern basis. The particular accounting policies adopted are described below and have been consistently applied throughout the year and preceding year.

### (b) Basis of preparation of Group financial statements

The Group financial statements consolidate the assets, liabilities and results of the Company and its subsidiary undertakings made up to 31 May 2012.

As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the year was £30,000 (2011 - loss of £3.0 million).

### (c) Joint venture

The joint venture is an undertaking in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group, which holds 50% of the voting rights, and KSE UK Inc under a contractual arrangement.

The Group's share of the results of the joint venture are included in the consolidated profit and loss account on the basis of audited financial statements. The Group's share of the results and net assets of the joint venture is included under the gross equity method and stated after adjustment to eliminate the Group's share of profits resulting from transactions between the Group and the joint venture which are included in the carrying amount of assets reported in the joint venture's balance sheet.

### (d) Turnover and income recognition

Turnover represents income receivable, net of VAT, from football and related commercial activities and income from the sale of development properties completed in the year. The Group has two classes of business - the principal activity of operating a professional football club and property development - both businesses are carried out principally within the United Kingdom. Gate, match and other event day revenue is recognised over the period of the football season as games are played and events are staged. Sponsorship and similar commercial income is recognised over the duration of the respective contracts. The fixed element of broadcasting revenues is recognised over the duration of the football season whilst facility fees for live coverage or highlights are taken when earned at the point of broadcast. Merit awards are accounted for only when known at the end of the financial period. UEFA pool distributions relating to participation in the Champions League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned; these distributions are classified as broadcasting revenues. Fees receivable in respect of the loan of players are included in turnover over the period of the loan. Income from the sale of development properties is recognised on completion of the relevant sale contract. Where elements of the sale price are subject to retentions by the purchaser the retained element of the sale price is not recognised until such time as all of the conditions relating to the retention have been satisfied.

**(e) Depreciation**

Depreciation is calculated to reduce the carrying value of buildings, plant, equipment and motor vehicles to the anticipated residual value of the assets concerned in equal annual instalments over their estimated useful lives as follows:

| | |
|---|---|
| Freehold buildings | 2% per annum |
| Leasehold properties | Over the period of the lease |
| Plant and equipment | 5% to 25% per annum |

Freehold land is not depreciated.

**(f) Debt**

Debt is initially stated at the amount of the net proceeds after deduction of the costs of obtaining the finance. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. The carrying value of long-term debt is not discounted.

**(g) Finance costs**

Finance costs of debt, in the form of bonds or bank loans, (including the costs directly attributable to obtaining the debt finance) are recognised in the profit and loss account over the term of the debt at a constant rate on the carrying amount. Finance costs directly attributable to the funding of property development projects are included within stocks.

**(h) Derivative financial instruments**

The Group uses derivative financial instruments to reduce exposure to interest rate and foreign exchange movements.
The Group does not hold derivative financial instruments for speculative purposes.
The Group's interest rate swaps are treated as hedges because the instruments relate to actual liabilities and change the nature of the interest rate by converting variable rates into fixed rates. Interest differentials under the swaps are recognised by adjusting net interest payable over the period of the contracts.

**(i) Stocks**

Stocks comprise retail merchandise and development property for onward sale and are stated at the lower of cost and net realisable value.
Where properties which are intended to be sold have been acquired they have been included in stock as development properties. Development property comprises freehold land inclusive of the direct cost of acquisition and other directly attributable property development costs including interest costs.

**(j) Grants**

Grants received in respect of tangible fixed assets are credited to the profit and loss account over the expected useful economic lives of the assets to which they relate. Grants received but not yet released to the profit and loss account are included in the balance sheet as deferred income.

## 1. Principal accounting policies (continued)

**(k) Player costs**

The costs associated with acquiring players' registrations or extending their contracts, including agents' fees, are capitalised and amortised, in equal instalments, over the period of the respective players' contracts. Where a contract life is renegotiated the unamortised costs, together with the new costs relating to the contract extension, are amortised over the term of the new contract. Where the acquisition of a player registration involves a non-cash consideration, such as an exchange for another player registration, the transaction is accounted for using an estimate of the market value for the non-cash consideration.

Under the conditions of certain transfer agreements or contract renegotiations, further fees will be payable in the event of the players concerned making a certain number of First Team appearances or on the occurrence of certain other specified future events. Liabilities in respect of these additional fees are accounted for, as provisions, when it becomes probable that the number of appearances will be achieved or the specified future events will occur. The additional costs are capitalised and amortised as set out above.

Profits or losses on the sale of players represent the transfer fee receivable, net of any transaction costs, less the unamortised cost of the applicable player's registration.

Remuneration of players is charged in accordance with the terms of the applicable contractual arrangements and any discretionary bonuses when there is a legal or constructive obligation.

**(l) Impairment**

The Group will perform an impairment review on player registrations if adverse events indicate that the amortised carrying value of its intangible assets may not be recoverable. Whilst no individual player can be separated from the income generating unit, which is represented by the playing squad and the football operations of the Group as a whole, there may be certain circumstances where a player is taken out of the income generating unit. Such circumstances might include a player being excluded from the playing squad due to sustaining a career threatening injury or where a permanent fall out with senior football management means it is highly unlikely a particular player will ever play for the club again. If such circumstances were to arise and be considered permanent, then the carrying value of the player would be assessed against the Group's best estimate of the player's fair value less any costs to sell and, if necessary, a provision would be made.

The Group's assessment of fair value will be based on:-

- in the case of a player who has suffered a career threatening injury, the value attributed by the Group's insurers; or
- in the case of a player who has fallen out with senior football management, either the agreed selling price in the event the player has been transferred since the year end or, if the player has not been sold, the Group's best estimation of disposal value taking into account recent player disposals by both the Group and other clubs.

**(m) Foreign currencies**

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the year end are translated at year-end exchange rates or the exchange rate of a related forward exchange contract where appropriate. Exchange gains or losses are dealt with in the profit and loss account.

**(n) Deferred income**

Deferred income represents income from sponsorship agreements and other contractual agreements which will be credited to the profit and loss account over the period of the agreements, season ticket renewals for the 2012/13 season and advance income from executive boxes and Club Tier seats at Emirates Stadium. Deferred income also includes income from the pre-sale of residential properties at Highbury Square which will be credited to the profit and loss account on completion of the sale contracts.

**(o) Leases**

Rentals payable under operating leases are charged to the profit and loss account evenly over the lease period.

**(p) Pensions**

The Group makes contributions on behalf of employees and directors to a number of independently controlled defined contribution and money purchase schemes including The Football League Pension and Life Assurance Scheme.
Contributions are charged to the profit and loss account over the period to which they relate.
In addition the Group is making contributions in respect of its share of the deficit of the defined benefit section of The Football League Pension and Life Assurance Scheme (the “Scheme”). A provision has been established for the Group’s share of the deficit which exists in this section of the Scheme and this additional contribution is being charged to the profit and loss account over the remaining service life of those Arsenal employees who are members of the Scheme. The amount attributable to employees who have already retired or who have left the Group has been charged to the profit and loss account.
Under the provisions of FRS 17 - Retirement Benefits - the Scheme would be treated as a defined benefit multi-employer scheme. The Scheme’s actuary has advised that the participating employers’ share of the underlying assets and liabilities cannot be identified on a reasonable and consistent basis and accordingly no disclosures are made under the provisions of FRS 17.
The assets of all schemes are held in funds independent from the Group.

**(q) Taxation**

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively 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 where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group’s taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.
Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.
Deferred tax is measured on a non-discounted basis.
A deferred tax asset is recognised only when, on the basis of available evidence, it can be regarded as more likely than not that the reversal of underlying timing differences will result in a reduction in future tax payments.

## 2. Segmental analysis

| Class of business: | Football | | Property development | | Group | |
|---|---|---|---|---|---|---|
| | **2012** £000's | **2011** £000's | **2012** £000's | **2011** £000's | **2012** £000's | **2011** £000's |
| **Turnover** | 235,329 | 225,410 | 7,684 | 30,282 | 243,013 | 255,692 |
| **Segment operating (loss)/profit** | (18,526) | 9,328 | 2,202 | 12,578 | (16,324) | 21,906 |
| Share of operating profit of joint venture | 952 | 822 | - | - | 952 | 822 |
| Profit on disposal of player registrations | 65,456 | 6,256 | - | - | 65,456 | 6,256 |
| Net finance charges | (13,793) | (14,194) | 297 | (14) | (13,496) | (14,208) |
| **Profit on ordinary activities before taxation** | 34,089 | 2,212 | 2,499 | 12,564 | 36,588 | 14,776 |
| **Segment net assets** | 265,280 | 237,053 | 32,268 | 30,902 | 297,548 | 267,955 |

Operating profit from football before depreciation, player trading and exceptional items amounted to £32.3 million (2011 - £45.8 million); being segment operating loss (as above) of £18.5 million, adding back depreciation of £11.4 million and operating loss from player trading of £39.4 million.

## 3. Turnover

| Turnover, all of which originates in the UK, comprises the following: | **2012** £000's | **2011** £000's |
|---|---|---|
| Gate and other match day revenues | 95,212 | 93,108 |
| Broadcasting | 84,701 | 85,244 |
| Retail and licensing | 18,303 | 17,702 |
| Commercial | 34,212 | 28,621 |
| Property development | 7,684 | 30,282 |
| Player trading | 2,901 | 735 |
| | 243,013 | 255,692 |

Turnover from product licensing was previously reported within the commercial revenue line. The comparative figures have been adjusted by £4.45 million to reflect the inclusion of licensing turnover under the heading of retail and licensing.

## 4. Operating expenses

| Operating expenses comprise: | 2012 £000's | 2011 £000's |
|---|---|---|
| Amortisation of player registrations | 36,802 | 21,658 |
| Impairment of player registrations | 5,517 | - |
| Depreciation (less amortisation of grants) | 11,391 | 12,498 |
| Total depreciation and amortisation | 53,710 | 34,156 |
| Staff costs (see note 6) | 143,448 | 124,401 |
| Cost of property sales | 5,463 | 25,484 |
| Other operating charges | 56,716 | 54,528 |
| Exceptional items | - | (4,783) |
| **Total operating expenses** | 259,337 | 233,786 |

| Exceptional items comprise: | | |
|---|---|---|
| Costs of takeover transaction | - | 3,077 |
| Write back of impairment provision | - | (7,860) |
| | - | (4,783) |

In the prior year, the costs of the takeover transaction related to professional advice to the Company in connection with the offer and share acquisition whereby KSE UK Inc. acquired a controlling interest in the shares of the Company.
Also in the prior year, the write back of the impairment provision related to the development site at Queensland Road.
The carrying value of the site was increased to reflect the value expected to be realised on completion of the sale of the site.

## 4. Operating expenses (continued)

| Other operating charges include: | 2012 £000's | 2011 £000's |
|---|---|---|
| Auditor's remuneration | | |
| - audit of the company's annual accounts | 20 | 20 |
| - audit of the subsidiaries pursuant to legislation | 129 | 125 |
| Total audit fees | 149 | 145 |
| - other services | 72 | 104 |
| - tax services | 96 | 119 |
| Total non-audit fees | 168 | 223 |
| Operating lease payments | | |
| - plant and machinery | 166 | 150 |
| - other | 694 | 698 |
| Profit on disposal of tangible fixed assets | (12) | (35) |

## 5. Net finance charges

| **Interest payable and similar charges:** | 2012 £000's | 2011 £000's |
|---|---|---|
| Bank loans and overdrafts | 16 | 34 |
| Fixed/ floating rate bonds | 13,265 | 13,462 |
| Other | 385 | 341 |
| Costs of raising long term finance | 785 | 937 |
| | 14,451 | 14,774 |
| Finance costs capitalised | - | - |
| Total interest payable and similar charges | 14,451 | 14,774 |
| Interest receivable | (955) | (566) |
| Net finance charges | 13,496 | 14,208 |

## 6. Employees

| The average number of persons employed by the Group during the year was: | 2012 Number | 2011 Number |
|---|---|---|
| Playing staff | 70 | 70 |
| Training staff | 55 | 47 |
| Administrative staff | 271 | 248 |
| Ground staff | 100 | 89 |
| | 496 | 454 |

In addition the Group used on average 845 temporary staff on match days (2011 – 834).

| | £000's | £000's |
|---|---|---|
| **Staff costs:** | | |
| Wages and salaries | 123,298 | 109,578 |
| Social security costs | 16,321 | 13,340 |
| Other pension costs | 3,829 | 1,483 |
| | 143,448 | 124,401 |

## 7. Directors' emoluments

| | 2012 | | | | | | 2011 |
|---|---|---|---|---|---|---|---|
| | Salary/fees £000's | Bonus £000's | Benefits £000's | Sub total £000's | Pension £000's | Total £000's | Total £000's |
| PD Hill Wood | 65 | - | 2 | 67 | - | 67 | 67 |
| KJ Friar OBE | 298 | 250 | 23 | 571 | - | 571 | 677 |
| DD Fiszman | - | - | - | - | - | - | 24 |
| Sir Chips Keswick | 25 | - | - | 25 | - | 25 | 25 |
| Lord Harris of Peckham | - | - | - | - | - | - | - |
| I Gazidis | 1,366 | 675 | 9 | 2,050 | 100 | 2,150 | 1,729 |
| ES Kroenke | 25 | - | - | 25 | - | 25 | 25 |
| | 1,779 | 925 | 34 | 2,738 | 100 | 2,838 | 2,547 |

In both the current and prior year, Lord Harris of Peckham waived director's fees of £25,000 and the Group donated this amount to appropriate charities.

In addition, the pension charge for the year (note 6) includes £1.02 million in relation to K.J.Friar OBE, being part of the deficit in the defined benefit section of the Football League Pension and Life Assurance Scheme.

## 8. Tax on profit on ordinary activities

| | 2012 £000's | 2011 £000's |
|---|---|---|
| UK corporation tax charge at 25.67% (2011 – 27.67%) | 451 | 4,836 |
| Under provision in respect of prior years | 32 | 247 |
| **Total current taxation** | 483 | 5,083 |
| **Deferred taxation (see note 19)** | | |
| Origination and reversal of timing differences | 9,218 | (475) |
| Impact of change in tax rate | (2,480) | (2,489) |
| (Over)/under provision in respect of prior years | (226) | 24 |
| **Total tax charge on profit on ordinary activities** | 6,995 | 2,143 |

From 1 April 2012 the rate of UK corporation tax was reduced from 26% to 24%. The Group's deferred tax liabilities have been revalued based on the 24% rate. The impact of the rate change is a deferred tax credit of £2.5 million.

| | 2012 £000's | 2011 £000's |
|---|---|---|
| The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows: | | |
| **Group profit on ordinary activities before tax** | 36,588 | 14,776 |
| Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 25.67% (2011 – 27.67%) | 9,392 | 4,089 |
| Effects of: | | |
| Capital allowances in excess of depreciation | (48) | 190 |
| Roll-over relief on player registrations | (10,867) | 159 |
| Other timing differences | 1,062 | 126 |
| Non taxable income/expenses not deductible | 912 | 272 |
| Adjustments to tax charge in respect of prior years | 32 | 247 |
| Group current tax for the year | 483 | 5,083 |

Full provision has been made for the deferred tax liabilities related to the roll-over of profits on sale of player registrations into the tax cost of new qualifying player registrations (see note 19).

The Group tax charge in future years may be affected by the legislation relating to taxation of profits on disposal of intangible assets, including player registrations, and rollover relief thereon.

The Finance Act 2012, which provides for a reduction in the main rate of corporation tax to 23% effective from 1 April 2013, was substantively enacted on 3 July 2012. As this legislation was not substantively enacted at the balance sheet date, the rate reduction is not reflected in these financial statements. This is in accordance with FRS 21, as the rate change is a non-adjusting event occurring after the reporting period. The impact of the rate reduction will be reflected in the next reporting period when it is estimated to reduce the Group's deferred tax liability at 31 May 2012 by £1.6 million.

## 9. Earnings per share

Earnings per share (basic and diluted) are based on the weighted average number of ordinary shares of the Company in issue being 62,217 shares (2011 - 62,217 shares).

## 10. Tangible fixed assets

| | Freehold properties £000's | Short Leasehold properties £000's | Plant and equipment £000's | Total £000's |
|---|---|---|---|---|
| **Group Cost** | | | | |
| At 1 June 2011 | 399,579 | 6,509 | 87,388 | 493,476 |
| Additions | 4,463 | 99 | 2,713 | 7,275 |
| Transfers | (3,086) | - | 3,086 | - |
| Disposals | - | - | (689) | (689) |
| At 31 May 2012 | 400,956 | 6,608 | 92,498 | 500,062 |
| **Depreciation** | | | | |
| At 1 June 2011 | 28,978 | 2,781 | 30,289 | 62,048 |
| Charge for the year | 5,587 | 306 | 5,646 | 11,539 |
| Disposals | - | - | (682) | (682) |
| At 31 May 2012 | 34,565 | 3,087 | 35,253 | 72,905 |
| **Net book value** | | | | |
| At 31 May 2012 | 366,391 | 3,521 | 57,245 | 427,157 |
| At 31 May 2011 | 370,601 | 3,728 | 57,099 | 431,428 |

Expenditure of £3.1 million, being part of the refurbishment works carried out in the Club Tier of Emirates Stadium during the year ended 31 May 2011, has been reclassified from freehold properties to plant and equipment.
At 31 May 2012 the Group had contracted capital commitments of £6.2 million (2011 - £6.3 million).
The cost of fixed assets includes £38.6 million of interest costs which were incurred on the stadium financing bank facilities during the periods when Emirates Stadium was under construction. The capitalisation of interest ceased in 2006 when Emirates Stadium came into use.

## 11. Intangible fixed assets

| | £000's |
|---|---|
| **Cost of player registrations** | |
| At 1 June 2011 | 138,322 |
| Additions | 78,283 |
| Disposals | (26,920) |
| At 31 May 2012 | 189,685 |
| **Amortisation of player registrations** | |
| At 1 June 2011 | 82,605 |
| Charge for the year | 36,802 |
| Impairment | 5,517 |
| Disposals | (20,947) |
| At 31 May 2012 | 103,977 |
| **Net book value** | |
| At 31 May 2012 | 85,708 |
| At 31 May 2011 | 55,717 |

The figures for cost of player registrations are historic cost figures for purchased players only. Accordingly, the net book amount of player registrations will not reflect, nor is it intended to, the current market value of these players nor does it take any account of players developed through the Group's youth system.

The directors consider the net realisable value of intangible fixed assets to be significantly greater than their book value.

## 12. Investments

| | Group | |
|---|---|---|
| **Investment in joint venture** | **2012** £000's | **2011** £000's |
| Investment at cost | 20,000 | 20,000 |
| Accumulated share of profit of joint venture | 2,326 | 1,648 |
| Adjustment to eliminate unrealised profit on sale of intangible assets | (20,000) | (20,000) |
| Share of joint venture | 2,326 | 1,648 |

The joint venture represents an interest in Arsenal Broadband Limited, a company incorporated in Great Britain and engaged in running the official Arsenal Football Club internet portal. The Group owns all of the 20,000,001 Ordinary "A" shares of £1 each and the one "C" share of £1 issued by Arsenal Broadband Limited and controls 50 per cent of the voting rights.
The Group's share of the net assets included in the audited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2012 is as follows:

| | 2012 £000's | 2011 £000's |
|---|---|---|
| Fixed assets | 417 | 321 |
| Current assets | 3,292 | 2,669 |
| Liabilities | (1,383) | (1,342) |
| | 2,326 | 1,648 |

| **Investments in subsidiary undertakings** | **Company** £000's |
|---|---|
| Balance at 1 June 2011 and 31 May 2012 | 30,059 |

The Company has the following principal subsidiary companies (of which those marked* are indirectly held):

| | Country of incorporation | Proportion of shares owned | Principal activity |
|---|---|---|---|
| Arsenal (AFC Holdings) Limited | Great Britain | 100% | Share holding |
| The Arsenal Football Club plc* | Great Britain | 100% | Professional football club |
| Arsenal (Emirates Stadium) Limited* | Great Britain | 100% | Property development |
| Arsenal Overseas Limited* | Jersey | 100% | Retail operations |
| Arsenal Securities plc* | Great Britain | 100% | Financing |
| Arsenal Stadium Management Company Limited* | Great Britain | 100% | Stadium operations |
| ATL (Holdings) Limited | Great Britain | 100% | Share holding |
| Ashburton Trading Limited* | Great Britain | 100% | Property development |
| HHL Holding Company Limited | Great Britain | 100% | Share holding |
| Highbury Holdings Limited* | Great Britain | 100% | Property holding |
| Ashburton Properties (Northern Triangle) Limited* | Great Britain | 100% | Property development |
| Arsenal Ladies Limited* | Great Britain | 100% | Ladies football |

## 13. Stock - development properties

Properties are held for resale and are recorded at the lower of cost and net realisable value. The directors consider the net realisable value of development property stocks to be greater than their book value.

## 14. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** £000's | **2011** £000's | **2012** £000's | **2011** £000's |
| **Amounts recoverable within one year** | | | | |
| Trade debtors | 20,394 | 10,032 | - | - |
| Other debtors | 14,347 | 3,182 | - | - |
| Prepayments and accrued income | 17,591 | 14,221 | - | 2 |
| | 52,332 | 27,435 | - | 2 |
| **Amounts recoverable in more than one year** | | | | |
| Other debtors | 3,570 | - | - | - |
| Amount due from group undertakings | - | - | 133,001 | 131,259 |
| Prepayments and accrued income | 1,631 | 2,214 | - | - |
| | 5,201 | 2,214 | 133,001 | 131,259 |

Other debtors include £16.5 million in respect of player transfers (2011 - £0.7 million).

## 15. Cash and short-term deposits

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £000's | 2011 £000's | 2012 £000's | 2011 £000's |
| Debt service reserve accounts | 33,538 | 31,687 | - | - |
| Other accounts | 120,087 | 128,542 | 6,517 | 10,384 |
| | 153,625 | 160,229 | 6,517 | 10,384 |

The Group is required under the terms of its fixed rate bonds and floating rate bonds to maintain specified amounts on bank deposit as security against future payments of interest and principal. Accordingly the use of these debt service reserve accounts is restricted to that purpose. Included in other accounts is a balance of £1.0 million (2011 - £4.5 million) which is held in connection with the site works at Queensland Road. The use of this deposit is restricted to that purpose and Newlon Housing Trust is a joint signatory. The Group uses short-term bank treasury deposits as a means of maximising the interest earned on its cash balances.

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £000's | 2011 £000's | 2012 £000's | 2011 £000's |
| Cash at bank and in hand | 29,272 | 115,509 | 17 | 4 |
| Short-term deposits | 124,353 | 44,720 | 6,500 | 10,380 |
| | 153,625 | 160,229 | 6,517 | 10,384 |

## 16. Creditors: amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £000's | 2011 £000's | 2012 £000's | 2011 £000's |
| Fixed rate bonds - secured | 5,937 | 5,583 | - | - |
| Trade creditors | 10,983 | 10,324 | - | - |
| Corporation tax | 200 | 4,612 | - | 6 |
| Other tax and social security | 17,312 | 16,867 | - | - |
| Other creditors | 23,915 | 9,717 | - | - |
| Accruals and deferred income | 86,812 | 84,001 | 22 | 2,522 |
| | 145,159 | 131,104 | 22 | 2,528 |

Other creditors, above and as disclosed in note 17, include £23.6 million (2011 - £10.7 million) in respect of player transfers.

## 17. Creditors: amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £000's | 2011 £000's | 2012 £000's | 2011 £000's |
| Fixed rate bonds - secured | 166,640 | 172,713 | - | - |
| Floating rate bonds - secured | 52,856 | 52,999 | - | - |
| Debenture loans | 27,110 | 26,761 | 12,680 | 12,331 |
| Amounts due to group undertakings | - | - | 1,786 | 1,786 |
| Other creditors | 4,772 | 5,802 | - | - |
| Grants | 3,989 | 4,137 | - | - |
| Deferred income | 12,699 | 13,500 | - | - |
| | 268,066 | 275,912 | 14,466 | 14,117 |
| Debenture loans comprise: | | | | |
| Par value of debentures plus accumulated interest | 27,421 | 27,072 | 12,991 | 12,642 |
| Costs of raising finance | (311) | (311) | (311) | (311) |
| | 27,110 | 26,761 | 12,680 | 12,331 |

Under the issue terms debentures with a par value of £14,430,000 are repayable at par after 130 years and these debentures are interest free. Debentures with a par value of £10,224,000 are repayable at the option of the debenture holders in 16 years and carry cumulative compound interest at 2.75% per annum.

| The fixed rate bonds above and disclosed in note 16 comprise: | 2012 £000's | 2011 £000's |
|---|---|---|
| Fixed rate bonds | 177,220 | 183,428 |
| Costs of raising finance | (4,643) | (5,132) |
| | 172,577 | 178,296 |
| Due within one year | 5,937 | 5,583 |
| Due after more than one year | 166,640 | 172,713 |
| | 172,577 | 178,296 |

The fixed rate bonds bear interest at 5.1418% per annum.

| The floating rate bonds above comprise: | 2012 £000's | 2011 £000's |
|---|---|---|
| Floating rate bonds | 50,000 | 50,000 |
| Interest rate swap | 5,365 | 5,645 |
| Costs of raising finance | (2,509) | (2,646) |
| | 52,856 | 52,999 |
| Due within one year | - | - |
| Due after more than one year | 52,856 | 52,999 |
| | 52,856 | 52,999 |

The floating rate bonds bear interest at LIBOR for three month deposits plus a margin of 0.22% and the Group has entered into interest rate swaps which fix the LIBOR element of this cost at 5.75%.

The costs of raising debt finance, in the form of fixed and floating rate bonds, are amortised to the profit and loss account over the term of the bonds. The amortisation charge for the year was £626,000 (2011 - £642,000).

The fixed rate bonds and floating rate bonds are guaranteed as to scheduled payments of principal and interest by certain members of the Group and by Ambac Assurance UK Limited. The Group pays Ambac Assurance UK Limited annual guarantee fees at a rate of 0.65% of fixed rate bond principal outstanding and 0.65% of the floating rate bond principal outstanding.

The Group's fixed rate bonds and floating rate bonds are secured by a mixture of legal mortgages and fixed charges on certain freehold and leasehold property and certain plant and machinery owned by the Group, by fixed charges over certain of the Group's trade debtors, by fixed charges over £49.6 million (2011 - £59.5 million) of the Group's bank deposits, by legal mortgages or fixed charges over the share capital and intellectual property rights of certain subsidiary companies and fixed and floating charges over the other assets of certain subsidiary companies.

| The Group's financial liabilities/debt is repayable as follows: | 2012 £000's | 2011 £000's |
|---|---|---|
| Between one and two years | 6,900 | 6,545 |
| Between two and five years | 23,026 | 21,842 |
| After five years | 218,170 | 225,904 |
| | 248,096 | 254,291 |
| Within one year | 6,545 | 6,209 |
| Total debt | 254,641 | 260,500 |

## 18. Derivative financial instruments

The Group's financial instruments comprise mainly of cash and bank balances, fixed and floating rate bonds, debentures and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The main risks arising from the Group's financial instruments are interest rate, liquidity and foreign currency risks and the Board reviews and agrees its policy for managing these risks.

The Group has entered into interest rate swaps the purpose of which is to minimise its exposure to interest rate risk. The Group has entered into forward exchange contracts the purpose of which is to minimise its exposure to exchange rate risk in relation to certain Euro denominated receivables. The Group does not hold or issue derivative financial instruments for speculative purposes.

The numerical disclosures in this note deal with financial assets and liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures (other than the currency disclosures).

### Interest rate profile

After taking into account these interest rate swaps, the interest rate profile of the Group's financial liabilities at 31 May 2012 was as follows:

| | Fixed rate 2012 £000's | Floating rate 2012 £000's | Interest free 2012 £000's | Total 2012 £000's | Weighted average fixed rate % | Weighted average period for which rate is fixed yrs |
|---|---|---|---|---|---|---|
| Bonds - fixed rate | 177,220 | - | - | 177,220 | 5.6 | 17 |
| Bonds - floating rate | 50,000 | - | - | 50,000 | 6.6 | 19 |
| Debenture loans | 12,991 | - | 14,430 | 27,421 | 2.8 | 16 |
| | 240,211 | - | 14,430 | 254,641 | | |

The interest rate profile at 31 May 2011 for comparative purposes was:

| | Fixed rate 2011 £000's | Floating rate 2011 £000's | Interest free 2011 £000's | Total 2011 £000's | Weighted average fixed rate % | Weighted average period for which rate is fixed yrs |
|---|---|---|---|---|---|---|
| Bonds - fixed rate | 183,428 | - | - | 183,428 | 5.6 | 18 |
| Bonds - floating rate | 50,000 | - | - | 50,000 | 6.6 | 20 |
| Debenture loans | 12,642 | - | 14,430 | 27,072 | 2.8 | 17 |
| | 246,070 | - | 14,430 | 260,500 | | |

The Group's bank deposits earn interest at rates linked to LIBOR. The Group's other financial assets, comprising mainly debtor balances, do not earn interest.

In addition to the above, the Group has commitments under letters of credit, as disclosed in note 27, of £0.3 million (2011 - £0.3 million) on which interest is currently paid at a fixed rate of 1%.

## Borrowing facilities

The Group had undrawn committed borrowing facilities at the balance sheet date, in respect of which all conditions precedent had been met, as follows:

| | 2012 £000's | 2011 £000's |
|---|---|---|
| Expiring in: One year or less | 50,000 | 55,000 |

## Fair values

The fair value of all financial instruments at 31 May 2011 and 2012, other than interest rate swaps and forward exchange contracts as disclosed below, was not materially different from their book value.

| Derivative financial instruments held to manage the Group's foreign exchange/interest rate profile: | Book value 2012 £000's | Fair value 2012 £000's | Book value 2011 £000's | Fair value 2011 £000's |
|---|---|---|---|---|
| Interest rate swaps | - | (18,127) | - | (14,744) |
| Forward exchange contracts | - | 105 | - | (370) |

## 18. Derivative financial instruments (continued)

The fair value of interest rate swaps have been determined by reference to relevant market data and the discounted value of expected cash flows arising from the transactions. The Group makes a credit risk adjustment by considering its own credit worthiness when determining the fair value of the swaps.

Changes in the fair value of interest rate swaps, which are used as hedges, are not recognised in the financial statements until the hedged position matures.

| An analysis of these unrecognised gains and losses is as follows: | **2012** £000's | **2011** £000's |
|---|---|---|
| Unrecognised losses at start of year | (15,114) | (14,915) |
| Unrecognised losses arising in year | (2,908) | (199) |
| Unrecognised losses at end of year | (18,022) | (15,114) |
| Of which: | | |
| Losses expected to be recognised in 2012/13 | 105 | (370) |
| Losses expected to be recognised later than 2012/13 | (18,127) | (14,744) |
| | (18,022) | (15,114) |

### Foreign currencies

Included in cash and short term deposits are amounts of £6.6 million (2011 - £6.1 million) denominated in Euros.

The Group has entered into certain foreign currency contracts which hedge its exposure to exchange rate fluctuations and provide for the future conversion of up to €34.9 million at rates ranging from £1: €1.16 to €1.27. Gains and losses on these contracts are not recognised until the exposure being hedged is itself recognised.

Included in other debtors are amounts of £4.6 million (2011 - £0.3 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £8.8 million (2011 - £7.5 million) denominated in Euros.

Included in other creditors are amounts of £8.9 million (2011 - £0.3 million) denominated in Euros and £0.0 million (2011 - £0.2 million) denominated in US dollars. Included in provisions are amounts of £4.1 million (2011 - £3.9 million) denominated in Euros and £0.5 million (2011 - £0.6 million) denominated in US dollars.

## 19. Provisions for liabilities and charges

| | Group | |
|---|---|---|
| | **2012** £000's | **2011** £000's |
| Pensions provision (see note 29 (b)) | 2,993 | 970 |
| Deferred taxation | 38,756 | 32,247 |
| Transfers | 13,103 | 5,057 |
| | 54,852 | 38,274 |

The transfers provision relates to the probable additional transfer fees payable based on the players concerned achieving a specified number of appearances. In this respect, new provisions of £12.7 million were made during the year, £4.7 million of provisions were reclassified as creditors and £0.0 million of provisions were cancelled as no longer required.
The deferred tax charge for the year was £6.5 million (see note 8) (2011 – credit of £2.9 million).

| | Group | |
|---|---|---|
| **Deferred tax provision** | **2012** £000's | **2011** £000's |
| Accelerated capital allowances | 13,451 | 14,240 |
| Capitalised interest | 8,854 | 9,779 |
| Rollover relief on player registrations | 18,157 | 9,188 |
| Other timing differences | (1,706) | (960) |
| Total provision for deferred taxation | 38,756 | 32,247 |

## 20. Called up share capital

| **Authorised** | **2012** Number | **2011** Number |
|---|---|---|
| Ordinary shares of £1 each | 62,217 | 62,217 |
| Subscriber ordinary shares of £1 each | 2 | 2 |
| Redeemable preference shares | 49,998 | 49,998 |

| **Alloted, issued and fully paid** | **£** | **£** |
|---|---|---|
| Subscriber Ordinary shares of £1 each | 2 | 2 |
| Ordinary shares of £1 each | 62,217 | 62,217 |

The two Subscriber Ordinary shares carry no right to vote or to income and a deferred right to a return of capital paid up.

## 21. Share premium

| | Group £000's | Company £000's |
|---|---|---|
| Balance at 1 June 2011 and 31 May 2012 | 29,997 | 29,997 |

## 22. Other reserves

| Group | Merger reserve £000's |
|---|---|
| Balance at 1 June 2011 and 31 May 2012 | 26,699 |

## 23. Profit and loss account

| | Group Profit and loss account £000's | Company Profit and loss account £000's |
|---|---|---|
| Balance at 1 June 2011 | 211,197 | 125,000 |
| Profit for the year | 29,593 | 30 |
| Balance at 31 May 2012 | 240,790 | 125,030 |

## 24. Reconciliation of movement in shareholders' funds

| | 2012 £000's | 2011 £000's |
|---|---|---|
| Profit for the year | 29,593 | 12,633 |
| Opening shareholders' funds | 267,955 | 255,322 |
| **Closing shareholders' funds** | 297,548 | 267,955 |

## 25. Notes to the consolidated cash flow statement

### (a) Reconciliation of operating profit to net cash inflow from operating activities

| | 2012 £000's | 2011 £000's |
|---|---|---|
| **Operating (loss)/profit** | (16,324) | 21,906 |
| Amortisation of player registrations | 36,802 | 21,658 |
| Impairment of player registrations | 5,517 | - |
| Profit on disposal of tangible fixed assets | (12) | (35) |
| Depreciation (net of grant amortisation) | 11,391 | 12,498 |
| (Increase)/decrease in stock | (4,702) | 13,068 |
| (Increase)/decrease in debtors | (11,894) | 4,500 |
| Increase/(decrease) in creditors | 6,916 | (20,453) |
| **Net cash inflow from operating activities** | 27,694 | 53,142 |

### (b) Reconciliation of net cash flow to movement in net debt

| | 2012 £000's | 2011 £000's |
|---|---|---|
| (Decrease)/increase in cash in the year | (86,237) | 81,962 |
| Increase/(decrease) in short-term deposits in the year | 79,633 | (49,340) |
| (Decrease)/increase cash and short-term deposits in the year | (6,604) | 32,622 |
| Cash outflow from change in debt | 6,208 | 5,890 |
| Change in net debt resulting from cash flows | (396) | 38,512 |
| Change in debt resulting from non cash flows | (695) | (700) |
| Net debt at start of year | (97,827) | (135,639) |
| Net debt at end of year | (98,918) | (97,827) |

As disclosed in note 15, a bank balance of £1.0 million (2011 - £4.5 million), included within net debt, is held in connection with Queensland Road site works.

## 25. Notes to the consolidated cash flow statement (continued)

### (c) Analysis of changes in net debt

| | At 1 June 2011 £000's | Non cash changes £000's | Cash flows £000's | At 31 May 2012 £000's |
|---|---|---|---|---|
| Cash at bank and in hand | 115,509 | - | (86,237) | 29,272 |
| Short-term deposits | 44,720 | - | 79,633 | 124,353 |
| | 160,229 | - | (6,604) | 153,625 |
| Debt due within one year (bonds) | (5,583) | - | (354) | (5,937) |
| Debt due after more than one year (bonds) | (225,712) | (346) | 6,562 | (219,496) |
| Debt due after more than one year (debentures) | (26,761) | (349) | - | (27,110) |
| Net debt | (97,827) | (695) | (396) | (98,918) |

Non cash changes represent £626,000 in respect of the amortisation of costs of raising finance, £349,000 in respect of rolled up, unpaid debenture interest and £280,000 in respect of amortisation of the premium on certain of the Group's interest rate swaps.

### (d) Gross cash flows

| | 2012 £000's | 2011 £000's |
|---|---|---|
| **Player registrations** | | |
| Payments for purchase of players | (57,406) | (28,561) |
| Receipts from sale of players | 55,621 | 27,033 |
| | (1,785) | (1,528) |
| **Returns on investment and servicing of finance** | | |
| Interest received | 832 | 565 |
| Finance charges paid | (13,903) | (17,785) |
| | (13,071) | (17,220) |
| **Capital expenditure** | | |
| Payments to acquire tangible fixed assets | (8,629) | (9,581) |
| Receipts from sale of tangible fixed assets | 19 | 35 |
| | (8,610) | (9,546) |
| **Financing** | | |
| Repayment of borrowings | (6,208) | (5,890) |
| Total debt financing | (6,208) | (5,890) |

## 26. Leasing commitments

Commitments due under operating leases for the period to 31 May 2013 are in respect of:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Land and buildings £000's | Other £000's | Land and buildings £000's | Other £000's |
| Leases expiring in: | | | | |
| One year or less | - | 14 | - | 25 |
| Two to five years | 54 | 155 | 50 | 125 |
| Over five years | 937 | - | 654 | - |
| | 991 | 169 | 704 | 150 |

## 27. Commitments and contingent liabilities

Under the conditions of certain transfer agreements in respect of players purchased, further transfer fees will be payable to the vendors in the event of the players concerned making a certain number of First Team appearances or in the event of certain other future events specified in the transfer agreements. In accordance with the Group's accounting policy for transfer fees, any additional fees which may be payable under these agreements, will be accounted for in the year that it becomes probable that the number of appearances will be achieved or the specified future events will occur. The maximum potential liability, in respect of contracts in force at the year end date, is £7.8 million (2011 - £12.5 million).

The Group has commitments outstanding under letters of credit, issued to guarantee its performance of certain future contractual obligations in relation to its new stadium and property development projects, of £0.3 million (2011 - £0.3 million). Provision has been made in the accounts for those costs incurred under these contractual obligations by the balance sheet date. When these liabilities are paid, the commitment outstanding under letters of credit will be reduced accordingly.

## 28. Related party transactions

The Group had the following transactions with Arsenal Broadband Limited in the year:-

| | 2012 Income/ (charge) £000's | 2011 Income/ (charge) £000's |
|---|---|---|
| Provision of office services | 160 | 134 |
| Merchandising and advertising sales | (1,358) | (495) |
| Arsenal TV | (735) | (159) |

At 31 May 2012 the balance owing from the Group to Arsenal Broadband Limited was £3,602,000 (2011 - £2,378,000).

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2012

## 29. Pensions

**a) Defined contribution schemes**

Total contributions charged to the profit and loss account during the year amounted to £1,207,000 (2011 - £1,443,000).

**b) Defined benefit scheme**

| | 2012<br>£000's | 2011<br>£000's |
|---|---|---|
| Provision at start of year | 970 | 1,176 |
| Payments in year | (206) | (206) |
| Increase in provision | 2,229 | - |
| Provision at end of year | 2,993 | 970 |

The Group is advised of its share of the deficit in the Scheme. The most recent actuarial valuation of the Scheme was as at 31 August 2011 and indicated that the contribution required from the Group towards making good this deficit had deteriorated and was £2.94 million at 1 September 2012 (the total deficit in the Scheme at this date was £25.7 million).

Additional contributions are being charged to the profit and loss account over the remaining service life of those Arsenal employees who are members of the Scheme. The amount attributable to employees who have already retired or who have left the Group has been charged in full to the profit and loss account.

Payments for the year amounted to £206,000 and the profit and loss account charge was £2,622,000 (2011 - £40,000). The agreed revised deficit will be paid off over a period of ten years commencing September 2012 and as a result payments will increase to £255,000 per annum.

## 30.Post balance sheet events

**Player transactions**

Since the end of the financial year a subsidiary company, Arsenal Football Club plc, has contracted for the purchase and sale of various players. The net receipt resulting from these transfers, taking into account the applicable levies, is £11.3 million. These transfers will be accounted for in the year ending 31 May 2013.

## 31. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is KSE UK Inc., which owns 66.8% of the share capital of the Company. KSE UK Inc. is incorporated in the State of Delaware, USA, and is wholly-owned and controlled by Mr E.S. Kroenke.

# FIVE YEAR SUMMARY

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Profit and Loss Account** | £000's | £000's | £000's | £000's | £000's |
| **Group Turnover** | 222,970 | 313,339 | 379,856 | 255,692 | 243,013 |
| **Operating profit before player trading and exceptional costs** | 48,018 | 58,800 | 60,124 | 38,046 | 23,094 |
| Operating expenses - player registrations | (21,285) | (20,287) | (24,573) | (20,923) | (39,418) |
| Operating expenses - exceptional | - | - | - | 4,783 | - |
| **Operating profit/(loss)** | 26,733 | 38,513 | 35,551 | 21,906 | (16,324) |
| Share of results of joint venture | 469 | 455 | 463 | 822 | 952 |
| Profit on disposal of player registrations | 26,458 | 23,177 | 38,137 | 6,256 | 65,456 |
| Net interest - ordinary | (16,992) | (16,633) | (18,183) | (14,208) | (13,496) |
| **Profit before tax** | 36,668 | 45,512 | 55,968 | 14,776 | 36,588 |
| **Profit after tax** | 25,726 | 35,230 | 60,992 | 12,633 | 29,593 |
| **Earnings per share** | £413.49 | £566.24 | £980.31 | £203.05 | £475.64 |
| **Earnings per share (excluding exceptional items)** | £413.49 | £566.24 | £980.31 | £161.13 | £475.64 |
| **Balance Sheet** | | | | | |
| Tangible fixed assets | 449,923 | 441,099 | 435,547 | 433,076 | 429,483 |
| Intangible fixed assets | 55,665 | 68,446 | 60,661 | 55,717 | 85,708 |
| Net current assets/(liabilities) | (5,527) | 9,768 | 85,631 | 93,348 | 105,275 |
| Long term creditors and provisions | (340,961) | (324,983) | (326,517) | (314,186) | (322,918) |
| **Net assets** | 159,100 | 194,330 | 255,322 | 267,955 | 297,548 |
| Share capital | 62 | 62 | 62 | 62 | 62 |
| Share premium | 29,997 | 29,997 | 29,997 | 29,997 | 29,997 |
| Reserves | 129,041 | 164,271 | 225,263 | 237,896 | 267,489 |
| **Shareholders' funds** | 159,100 | 194,330 | 255,322 | 267,955 | 297,548 |
| **Net assets per share** | £2,557.18 | £3,123.42 | £4,103.73 | £4,306.78 | £4,782.42 |
| **Playing record** | | | | | |
| FA Premier League | 3rd | 4th | 3rd | 4th | 3rd |
| FA Challenge Cup | 5th round | Semi final | 4th round | 6th round | 5th round |
| Europe | Quarter finals Champions League | Semi final Champions League | Quarter finals Champions League | 1st k/o round Champions League | 1st k/o round Champions League |

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