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Lady Nina Bracewell-Smith

Lord Harris of Peckham

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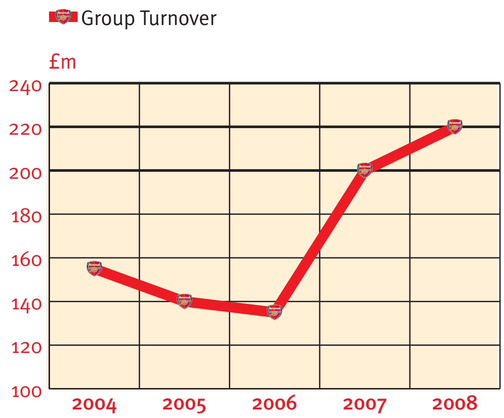
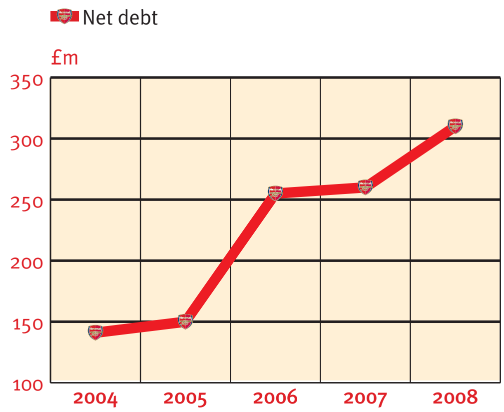
# FINANCIAL HIGHLIGHTS

| | 2008 | 2007 |
|---|---|---|
| Group turnover £m | **223.0** | 200.8 |
| Group operating profit before player trading and depreciation £m | **59.6** | 51.2 |
| Profit before taxation £m | **36.7** | 5.6 |
| Earnings per share £ | **413.49** | 45.26 |
| Earnings per share (adjusted to exclude exceptional costs) £ | **413.49** | 286.05 |





# CHAIRMAN'S REPORT

I am pleased to report another year of satisfactory progress against our key objectives of delivering long-term stability and success through the operation of the Club as a business which is self-sustaining. The annual accounts, which show a pre-tax profit of £36.7 million (2007 - £5.6 million), clearly confirm the strength of the Group's financial position following the move to Emirates Stadium. Your Board strongly believes this financial strength establishes the best possible foundation from which the Club can achieve footballing success long into the future.

During the 2007/08 season, the team played some highly entertaining and stylish football. The Club made a strong challenge for the Barclays Premier League title but eventually finished the season, just four points behind the winners, in a respectable third place. In addition, the Club reached the quarter-final stage of the UEFA Champions League and the semi-final stage of the Carling Cup.

It was disappointing to see honours elude us last season, particularly by such a narrow margin. However, we have every confidence in the playing squad and we are optimistic of the prospects for the 2008/09 campaign. Clearly, the level of competition both domestically and in Europe will once again be very high, but we are ambitious for success and keen to see the Club add to the seven major trophies it has so far won during Arsène Wenger's term as manager. Following our victory over FC Twente in the third qualifying round, we have now reached the Group Stage of the UEFA Champions League for the 11th consecutive year – a record of which we are very proud.

Our successful leverage of Emirates Stadium's facilities is providing opportunities for the Group over and above those derived from the core business of staging the Club's competitive fixtures. There is no doubt that Emirates Stadium has become a serious contender for the staging of major non-football events and the proof of this potential has been a string of new awards including Business Venue of the Year (2007 Visit London Awards), Best Major Project (2007 British Construction Industry Awards) and the Tourism Gold Award from Meet Britain's Business (2008). The stadium's standing as a first class venue was further enhanced in March when it played host to a summit between Gordon Brown and French president Nicolas Sarkozy; the two political leaders held a joint press conference with the world's media in attendance.

At the end of May music legend Bruce Springsteen played to two nights of sell-out audiences immediately establishing a reputation for Emirates Stadium as a non-football entertainment venue. Although the window between the end of the playing season and the start of work on renovating the pitch for the new season is relatively short, the staging of music events is certainly something we will consider again for the future. We have now successfully staged two Emirates Cups, in pre-season 2007 and 2008, and in March 2008 we played host to a third international friendly - Brazil v Sweden. We hope to continue with both the Emirates Cup and high quality non-Arsenal fixtures as regular features in the Emirates Stadium calendar.

We recognise that the Club's operations have an impact on the local, national and global environment and during the year we have introduced a number of initiatives in order to try and operate as a more environmentally friendly organisation. We now have a dedicated recycling area in the stadium's underground car park and on average we are recycling 10 tonnes per month of glass, cardboard and plastic which would previously have been sent to landfill. Other new initiatives in the year included progression of

# CHAIRMAN'S REPORT

our supporter Contact Centre project. This brings together box office, home shopping, tours, travel and Junior Gunners operations for both telephone and e-mail handling and is designed to ensure an enhanced level of service is available to all of our supporters. The initial responses to the roll-out of this project have been encouraging.

On the property side of the business, the year has seen significant progress and investment in the Highbury Square development where the construction work is now moving toward its final stages. We are, of course, paying close attention to the conditions in the property and mortgage markets but we remain confident that Highbury Square represents a genuinely unique residential scheme in an excellent location. This view is supported by the sales position to date which continues to be positive. We have so far marketed 655 of the development's 680 private residential apartments and 598 of these are the subject of exchanged sale contracts. We have also completed the sale of all of the social housing elements of the development. The first wave of 65 finished apartments in the South Stand were released on schedule at the end of July. Given the strong football memories we all have of Highbury it is remarkable to consider the transformation which means that our former home now has its first new owners in residence.

Our other major remaining property development site is at Queensland Road and we have formulated and recently submitted planning applications for the redevelopment of this site which are currently being reviewed by Islington Council.

The two new major shareholders which I mentioned in my report at this time last year – Red and White Securities Limited and KSE UK Inc. - have both increased their shareholdings. However, the Board's "lock-down" arrangement, which was announced in October 2007, enables the continued stability of ownership for the Club at least to the date of its expiry in 2012.

I am delighted to confirm that E. Stanley Kroenke has accepted the Board's invitation to become a non-executive director of Arsenal. Mr Kroenke fully supports the approach the Board has taken in setting the direction of the Club and we believe his experience in sports team commercial management, sports marketing, media and new media rights as well as real estate development will be of great value. Mr Kroenke is not a party to the "lock-down" arrangement entered into by the other members of the Board.

Mr Kroenke is the shareholder in Kroenke Sports Enterprises (KSE), the leading live sports and entertainment group based in Denver, Colorado. In April this year KSE acquired from ITV plc a 50% share in Arsenal Broadband Limited and at the same time entered into a strategic partnership with the Club through Colorado Rapids, the KSE franchise.

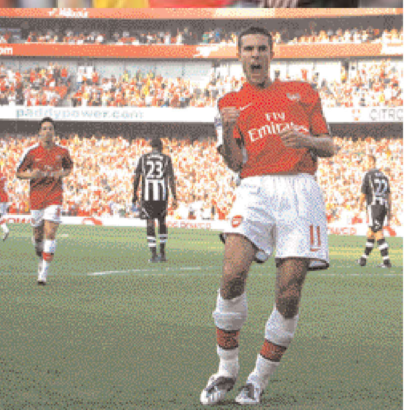
The year saw the departure of managing director Keith Edelman and, once again, I would like to express our thanks for his contribution over the last eight years. We are actively engaged in seeking a replacement and will make an announcement in due course.

## On the Field

A look back at the first team's 2007/08 season elicits mixed emotions. There is no doubt that the football played by Arsène Wenger's side was often at a truly exceptional level, however, despite winning many plaudits, trophies were again to prove elusive.

The Premier League campaign yielded 83 points, some 15 points more than the

# CHAIRMAN'S REPORT



previous season, and only three defeats yet only a third-placed finish. A fine 'double' over Tottenham Hotspur and an emphatic away win against Everton were particular highlights.

International call-ups and injuries – not least that which was suffered by our Croatian forward Eduardo at, perhaps, a pivotal point of his debut season – depleted the squad in the new year and this proved telling in the months of February and March when four consecutive draws considerably hampered the title challenge. Despite taking the lead in both games, the team then slipped to narrow defeats at Stamford Bridge and Old Trafford which confirmed that the championship would not be heading to Emirates Stadium.

In the UEFA Champions League, a relatively straightforward Group Stage was followed by the glamour of a tie with reigning holders AC Milan. The excitement and pride felt by everybody connected with the Club following a famous 2-0 win at the San Siro, which secured progress to the quarter-finals, was considerable. However, domestic rivals Liverpool put an end to the European campaign on a dramatic night at Anfield in which a late Emmanuel Adebayor goal seemed to have earned us a place in the last four, only for two further strikes by the hosts to decide otherwise.

There were mixed fortunes in the domestic cups. Another fine Carling Cup run emphasized again the quality and depth of young talent which the Club is developing. The semi-finals were reached in some style although Tottenham Hotspur then prevailed through to the final. Early FA Cup successes against Burnley and Newcastle United were offset when a weakened side was beaten at Old Trafford in the fifth round of the competition.

Despite the disappointment felt at a season without winning a trophy, there can be no denying that progress was made in 2007/08. It is notable that Emirates Stadium is proving to be a significant factor in the team's success - we remained unbeaten in all the 28 home matches played last season and, in fact, only one competitive game has been lost of the 58 played at our new home.

Congratulations are again due to Vic Akers and his Arsenal Ladies side, who continued their remarkable record in recent years with a League and FA Women's Cup 'double'.

Pages 17 to 19 contain a full review of the 2007/08 season for Arsenal's first team, reserves, youth and ladies teams.

## Player Transfers

During the close season, the Club welcomed four new players to its first team squad. Wales Under-21 international Aaron Ramsey joined on a long-term contract from Championship side Cardiff City. 17 year-old midfielder Ramsey became the youngest player ever to represent Wales at Under-21 level in August 2007 and he has also already been called up to the full Welsh squad.

Ramsey progressed through the youth ranks at Cardiff City and also became the youngest ever player to represent the Bluebirds, coming on as a substitute in a league match against Hull City on 28th April 2007, at just 16 years 124 days, breaking the previous record set by John Toshack. Since making his debut for Cardiff City, Ramsey went on to make a total of 22 appearances for the Welsh side, including a substitute appearance in last season's FA Cup Final.

The Club was also delighted to secure the signing of French international Samir Nasri who joined us from Olympique de Marseille on a long-term contract. 21 year-old Nasri, who appeared for his country in Euro 2008, was voted the French Ligue 1 'Young Player of the Year' for 2006/07 and was also

# CHAIRMAN’S REPORT

Olympique de Marseille’s Player of the Year for 2007.

As an attacking midfielder, he made 145 appearances (scoring 11 goals) for Olympique de Marseille, during which time they won the UEFA Intertoto Cup in 2005, were French Cup runners-up in 2006 and 2007 and secured third place in Ligue 1 in the 2007/08 season. His first Arsenal goal was scored just 4 minutes from the start of his debut Premier League appearance.

The Club also completed the signing of midfielder Amaury Bischoff. The French-born Portugal Under-21 international was a youngster with French clubs SR Colmar and RC Strasbourg before moving to Werder Bremen in 2005. Bischoff, who is 21 years old, was a regular at youth levels for Werder Bremen. His one senior appearance for the Bundesliga club came against Celta Vigo in the UEFA Cup in 2007. He has played for France's Under-18 team, however, in 2007 he elected to train with Portugal and to date has appeared for their Under-21 side.

French International Mikael Silvestre joined the club from Manchester United on a two year contract. Sivestre spent nine seasons with Manchester United, winning six domestic trophies. He has also made forty international appearances for France, winning two Confederation Cups and reaching the World Cup final in 2006.

The Club extends a warm welcome to Aaron, Samir, Amaury and Mikael, together with all the ‘First Year Scholars’ joining our Youth Development programme this summer. We wish them all the best of luck during their Arsenal careers.

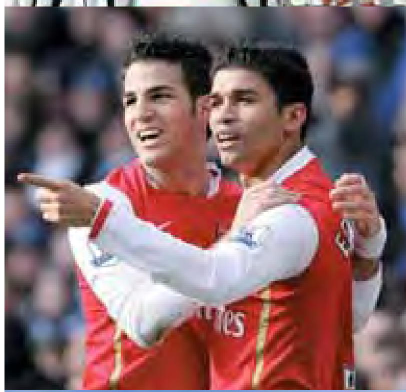
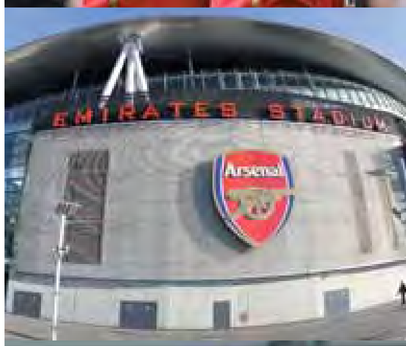
The close season saw the departure of five first team squad players. Mathieu Flamini left the Club to join Italian Serie A side AC Milan on a free transfer. Flamini made a total of 153 appearances for the Club, scoring 8 times, and won an FA Cup Winner’s medal in 2005. He played at full back in the team’s run to the UEFA Champions League Final in 2006.

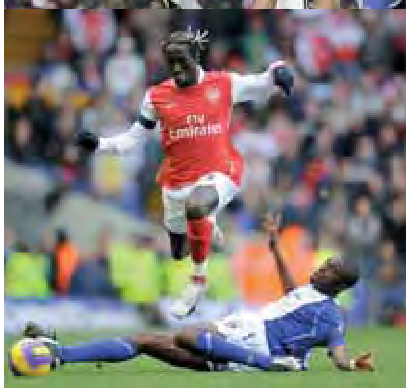
The summer also saw Jens Lehmann depart Arsenal and join German Bundesliga side VfB Stuttgart on a free transfer. Lehmann joined from Borussia Dortmund in 2003 and went on to make a total of 199 appearances for the Club. Lehmann is a UEFA Champions League record holder after 853 minutes without conceding a goal in the tournament during the team’s run to the 2006 final in Paris.

Lehmann was part of the ‘Invincibles’ squad which completed an unbeaten Premier League title season in 2003/04 and was the Club’s hero at the 2005 FA Cup Final, saving Paul Scholes’ penalty in a shoot-out win over Manchester United.

Another leaver during the close season, was Alexander Hleb, who joined Barcelona. Hleb signed for Arsenal from German side VfB Stuttgart in June 2005 and made a total of 129 appearances during his time with the Club, scoring 11 goals. Hleb became the first Belarusian to appear in a UEFA Champions League Final when he played for the Club against Barcelona in the 2006 final. Alex was voted Belarusian footballer of the year in 2005 and 2006.

Over the summer long-serving midfielder Gilberto left the Club to join Greek side Panathinaikos. Gilberto spent a total of six seasons with the Club, after joining in the summer of 2002 from Brazilian side Atletico Mineiro. During his time with Arsenal, Gilberto made a total of 244 appearances in all competitions, scoring 24 goals and he was an integral part of the ‘Invincibles’ squad which completed the entire 2003/04 Premier League campaign unbeaten. In addition to his League Championship winner’s medal in 2004, the Brazilian also won the FA Cup twice


# CHAIRMAN'S REPORT

– in 2003 and 2005 and the Community Shield in 2002 and 2004.

Justin Hoyte also left the club during the summer to join Middlesbrough FC. The former England U-21 International joined the club at the age of 9 and after making his debut in 2003, went on to make 68 first team appearances.

We wish Mathieu, Jens, Alexander, Gilberto and Justin well for their future careers and thank them all for the major contribution they made to Arsenal Football Club.

## Commercial Partners

Arsenal has continued to develop its commercial partner programme over the 2007/08 season. From a sponsorship perspective we are fortunate to be in a position where we are working closely with many high profile brands. During the year, Ebel joined our partner programme as official timing partner and we are also delighted to welcome Citroën, as the Club's official car partner, for the start of the 2008/09 season.

We delivered our most successful merchandise figures ever during the 2007/08 season on the back of new second and third choice Nike kits and continuing excellence in own brand apparel, gifts and souvenirs delivered by S'porter, our retail partner. These results were assisted by a temporary store established in Enfield for the period ahead of Christmas 2007. A major overhaul of our Finsbury Park shop has been undertaken and a new store has recently been opened in St Albans. Further off-site stores are planned for the future.

Internationally, our merchandise business is also growing. Our Thai partner BEC Tero now has fourteen retail outlets for Arsenal merchandise, including a new flagship store in Phuket, Thailand. More distribution partnerships will be established for official club merchandise in other territories in the coming financial year.

Arsenal has been involved in other international activity which both improves the profile of the Club and drives revenues. Tiger Beer will continue to be Arsenal's Official Beer in South East Asia for another three years. In Vietnam, the Club has secured sponsorship with Vinamilk, Gree Electrics and ICP which will positively impact on the Club's local profile. Financial service partnerships have been secured in Indonesia and Nigeria with Bank Danamon and UBA respectively. Local language official Arsenal websites in China, Korea, and Thailand continue to be used by over 300,000 local fans each month.

The international Arsenal Soccer Schools programme continues to advance. High quality facilities have opened in Bangkok, Thailand and Ho Chi Minh City, Vietnam and represent further grassroots investment. Arsenal now has sixteen affiliated Soccer Schools abroad. The Club has made its first major entry into India with a high profile Arsenal football roadshow supported by Tata Tea.

Closer to home, Emirates Stadium has hosted a wide range of organisations for a variety of conference, banqueting and meeting events. The stadium provides a flexible and unique venue and along with our catering partner Delaware North we have become expert in hosting high quality functions. In addition, Emirates Stadium welcomed over 80,000 visitors on a variety of stadium tours during the 2007/08 season.

Emirates Stadium also hosts the production facility and studio used to broadcast Arsenal TV, which was successfully launched in January. The channel is part of the Setanta Sports package of channels and is also available through Virgin Media reaching approximately 5 million homes in the UK and Eire. We are extremely pleased with the quality

# CHAIRMAN'S REPORT

of the programming and presentation, with much credit going to our production partner Input Media. Feedback from fans has been positive and consequently broadcasting hours have been increased for the 2008/09 season.

Our joint venture partner in the Arsenal.com website business changed, following ITV's sale of their 50% shareholding to KSE, and we now look forward to further developing this already successful website operation alongside KSE.

During the year we also ended our own commercial relationship with ITV. All commercial development, including the Arsenal licensing programme, is now undertaken in house. We would like to thank ITV for all the hard work expended on the Club's commercial programme and their contribution to our commercial success over the last few years.

## Charity of the Season

Treehouse, the national charity for autism education, became Arsenal's nominated charity for season 2007/08 taking over from The Willow Foundation. Treehouse was established in 1997 by a group of parents of autistic children and it aims to transform the lives of all children with autism and the lives of their families, by increasing the quantity and quality of autism education. The Club's partnership with Treehouse, more details of which are given on page 20, was a great success raising a record breaking £519,000 for the charity.

## Prospects

The property side of the business will inevitably be of considerable significance to the Group over the next year, with a large number of apartment sales scheduled to complete at Highbury Square and progression of the redevelopment plans for Queensland Road. We will be closely monitoring all stages of the sales completion process.

Over 2008/09 the proceeds of Highbury Square sales will largely be used for the repayment of the related bank loans, consequently reducing the Group's net debt from its current peak level.
The two sides of the Group's business are financed independently of each other and both the property and football business segments start the year from very sound financial bases.

On the field the new season has got off to a promising start. We have successfully negotiated the qualification round of the 2008/09 UEFA Champions League to ensure participation in the Group Stage and this is important to the Club both in competitive and financial terms.

This Club is ambitious for success and as always, at the start of the season, our expectations are high. We look forward to supporting the team, as it challenges for trophies, throughout the course of the season.

In closing, I would like to pay tribute to my fellow directors, our management team and our entire staff for all of their hard work and dedication over the last year. I would also like to thank our Highbury Square project team and all of our other professional advisers for the support they have provided.

Finally thank you for the fantastic support given to the Club by all of our shareholders, supporters, sponsors and commercial partners. I look forward to welcoming you all again to Emirates Stadium over the course of the new season.

P D Hill-Wood
Chairman
18 September 2008


# FINANCIAL REVIEW

The results for the year show a very satisfactory outcome and provide a further confirmation of the strong financial position which the Group occupies following its move to Emirates Stadium.

Overall the Group increased its turnover from £200.8 million to £223.0 million and recorded a profit before taxation for the year of £36.7 million compared with £5.6 million (stated after exceptional charges of £21.4 million) in the previous year.

| | 2008 £m | 2007 £m |
|---|---|---|
| Group turnover | 223.0 | 200.8 |
| Operating profit before depreciation and player trading | 59.6 | 51.2 |
| Player trading | 5.2 | 0.2 |
| Depreciation | (11.6) | (9.6) |
| Joint venture | 0.5 | 0.4 |
| Ordinary finance charges | (17.0) | (15.3) |
| Profit before tax and exceptional items | 36.7 | 26.9 |
| Profit before tax after exceptional items | 36.7 | 5.6 |

Continued growth in revenue and profit in our core football business, including the benefit of the new Premier League TV contracts for season 2007/08, was balanced by a year of lower sales activity and a break-even operating return in the Group's property development business. The results of the football and property development segments will be considered in more detail later in this review.

In terms of the Group's balance sheet, the most significant change reflects the progress made toward completion of the Highbury Square residential development and the investment in this project was the main reason that the carrying value of development property stocks increased during the year to £188.0 million (2007 - £100.1 million).

The Group's overall net debt position rose to £318.1 million (2007 - £268.2 million). This increase in debt, which was anticipated both in last year's annual report and this year's interim statement, reflects the loans drawn down in funding the Highbury Square construction works. This level of net debt is expected to represent a peak for the Group with the level diminishing throughout 2008/09 as sale completions occur at Highbury Square.

The Highbury Square bank loan is included, on the basis of its projected repayment profile from receipts of sale completions, as part of creditors falling due within one year although the actual term date for the repayment of this loan facility extends to April 2010.

## Segmental Operating Results

| | 2008 £m | 2007 £m |
|---|---|---|
| **Football** | | |
| Turnover | 207.7 | 177.0 |
| Operating profit* | 59.6 | 42.2 |
| Profit before tax and exceptional items | 39.7 | 20.8 |
| **Property development** | | |
| Turnover | 15.3 | 23.8 |
| Operating profit* | - | 9.0 |
| (Loss) / profit before tax and exceptional items | (3.0) | 6.1 |
| **Group** | | |
| Turnover | 223.0 | 200.8 |
| Operating profit* | 59.6 | 51.2 |
| Profit before tax and exceptional items | 36.7 | 26.9 |

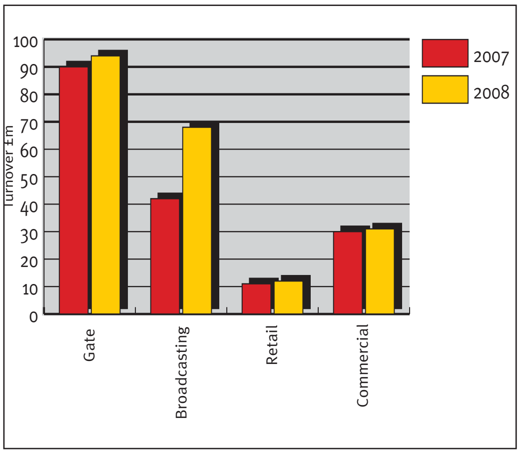
*= operating profit before depreciation and player trading costs

## Football segment

The football business increased its turnover to £207.7 million (2007 - £177.0 million).

# FINANCIAL REVIEW

This increase was mainly driven by the new Premier League domestic and overseas TV deals. The uplift in the value of these contracts, together with the levels of live coverage associated with our prominent challenge for the title and favourable exchange rates on £:_ conversion of UEFA Champions League distributions to the quarter final stage, meant that total broadcasting revenues rose by some £24 million to in excess of £68 million.




The main component of our turnover continues to be gate and match day revenue which at £94.6 million (2007 - £90.6 million) represents some 45% of total football revenues and 42% of the Group's total revenues. There were 28 first team home fixtures in season 2007/08 which is one more than in the previous year and the average attendance was 59,720 (2007 - 59,850). We have been very successful in generating event income from our new home outside of the competitive first team fixture list; during the year Emirates Stadium hosted the inaugural Emirates Cup pre-season tournament which generated more than £4 million of ticket sales over two days, an international friendly fixture between Brazil and Sweden and two Bruce Springsteen concerts.

The continued growth in our retail turnover to £13.1 million (2007 - £ 12.1 million) and commercial revenues to £31.3 million (2007 - £29.5 million) has been referred to in the Commercial Partners section of the Chairman's Report.

We remain firmly committed to sustained investment in the development of the playing squad in a market-place where the income from the new Premier League TV contracts has inevitably created a significant upward pressure on both transfer prices and players' wage expectations. During the year we have improved and extended the contract terms of a large number of first team players and, of course, of Arsène Wenger himself. As a result, for the first time, the Group's wage bill has exceeded nine figures at £101.3 million (2007 - £89.7 million). The wage/turnover ratio for the year, on a football segment basis, remained broadly stable at 48.8% (2007 – 50.6%) and continues to fall within our target range.

Taking into account these changes in revenues and operating costs the operating profit (before depreciation and player trading) from football increased to £59.6 million (2007 - £42.2 million).

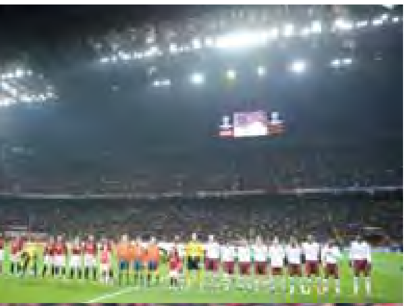
## Property Segment

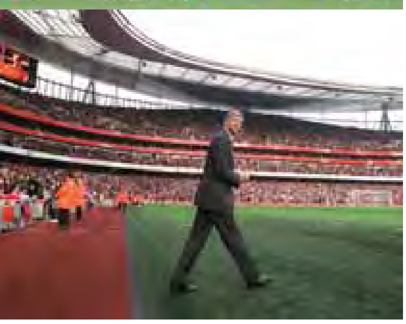
Revenue in the property segment fell to £15.3 million (2007 - £23.8 million) as sales activity was limited to the granting of certain leasehold interests and contracting work within the social housing element of the Highbury Square development. The previous year contained the sale of a major development site at Drayton Park.

Profit from this Highbury Square sales activity was balanced by the carrying costs of our development site at Queensland Road such that the overall operating result from property was break-even (2007 – profit of £9.0 million).

We have now secured all of the land interests in the Queensland Road site, which lies to the south of Emirates Stadium, and we continue to progress the design of an appropriate redevelopment scheme and detailed planning

# FINANCIAL REVIEW



permission for the site. This is proving to be a complex process - blending a mix of residential, commercial and regenerative elements - and we will not be able to finalise an on-sale of the site until it is complete.

Construction work at the Group's main development site, Highbury Square, has continued at an intensive level throughout the year and remains very much on a schedule which will see the completion of the majority of the residential units over the next year. We are, of course, mindful and vigilant of the difficult conditions which currently exist in the property and mortgage markets in general. That said, we remain confident that Highbury Square represents a genuinely unique residential scheme in an excellent location. This view is supported by the sales position to date which continues to be positive. We have so far marketed 655 of the development's 680 private residential apartments and 598 of these are the subject of exchanged sale contracts. The first wave of 65 finished apartments in the South Stand was released at the end of July and sales have so far completed on apartments having a revenue value of £18.7 million. Sales as achieved will be included in the Group's 2008/09 financial results.

## Player Trading

A profit of £26.5 million (2007 – £18.5 million) from the sale of player registrations means that overall player trading produced a surplus of £5.2 million for the year (2007 - £0.2 million).

The main contributions to the disposal profit came from the sales of Thierry Henry, Freddie Ljungberg, Jose Antonio Reyes, Jeremie Aliadiere and Lassana Diarra which I believe highlights the fact that selling players at a profit is a by-product of Arsène Wenger's astute management of the long-term development of the playing squad rather than an objective in itself. The terms of certain past sales mean that we continue to gain additional fees as a number of former players, such as Fabrice Muamba and David Bentley, achieve success in their post-Arsenal careers.

The Board's policy continues to be that the proceeds of any player sales are always made available for re-investment back into the development of the team.

## Finance Charges

The net interest charge for the year was £17.0 million (2007 - £15.3 million of ordinary charges and £21.4 million of exceptional charges). The increase reflects a full year's charge on the stadium financing bonds, whereas in the previous year interest costs on this debt were capitalised up to the date of Emirates Stadium's opening.

Finance costs of £5.0 million attributable to bank loans drawn specifically to fund property development expenditure during the year were capitalised within property development stocks.

## Profit after tax

The tax charge for the period was £10.9 million (2007 - £2.8 million). The effective rate of tax at 29.8% is impacted by the change in the rate of corporation tax from 30% to 28% for the last two months of the financial year and the conversion of the Group's deferred tax provisions to this new rate of tax.

The retained profit for the year of £25.7 million (2007 - £2.8 million) was the Group's second best ever financial result, bettered only by 2000/01 which was the year in which the Group reported exceptional profits from the part sale of Arsenal.com.

# FINANCIAL REVIEW

## Cash Flow and Treasury

In order to properly review the Group's cash flow for the year it is necessary to separate out the investment in property development and the related bank funding.

| | £m |
|---|---|
| **Cash from operations before property stock** | 61.9 |
| Investment in property stock | (82.9) |
| Bank loan funding of property stock | 74.9 |
| | (8.0) |
| Net receipt from sale of players | 4.0 |
| Payment of taxation | (4.2) |
| Investment in fixed assets | (6.9) |
| Net interest payments | (19.7) |
| Repayment of debt | (7.7) |
| | (27.4) |
| **Increase in year-end cash** | 19.4 |

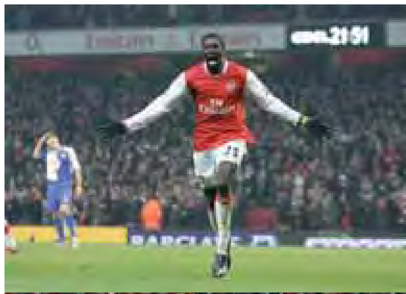
The positive cash flow for the year means that the Group had total cash balances of £93.3 million at 31 May 2008 (2007 - £73.9 million). Whilst this is clearly a very healthy position it should be remembered that there is a strong element of seasonality to the Group's operational cash flow with season ticket renewals during May having a positive impact. In addition, balances of £31.5 million (2007 - £32.9 million) within the total cash position are debt service bank deposits which form part of the security for the Group's listed bonds and the use of these deposits is restricted.

As mentioned above the Group's overall net debt position rose to an overall £318.1 million (2007 - £268.2 million) and this was an expected increase given the use of bank debt to fund the construction works at Highbury Square. The main elements of this net debt are shown in the table below.

The largest part of the Group's debt is £250.2 million of long-term bonds with fixed rates of interest which have been in place since the refinancing exercise completed in the summer of 2006. A repayment of £5.0 million was made during the year in accordance with the terms of the bonds. The annual debt service costs for these bonds, including repayment of capital, is approximately £20 million and this figure must always be considered in the context of the significantly increased levels of football operating profit which the Group is achieving following the move to Emirates Stadium.

The main element of property development financing is the Highbury Square loan balance which was £133.5 million at the balance sheet date (2007 - £62.9 million). This loan, which is repayable from the sale proceeds of the development, is ring-fenced from the Group's football activities and the related financing

| | Emirates Stadium Financing £m | Property Development Financing £m | Debenture Loans £m | Cash Reserves £m |
|---|---|---|---|---|
| Start of year | (255.2) | (64.4) | (25.8) | 73.9 |
| Movement in year | 5.0 | (74.9) | (0.3) | 19.4 |
| End of year | (250.2) | (139.3) | (26.1) | 93.3 |
| Term | 21-23 yrs | 2 years | 20-134 yrs | N/A |
| Weighted average rate | 5.3% | 6.6% | 0-2.75% | N/A |
| Guarantee fee | 0.5%<br>0.65% | - | - | N/A |






# FINANCIAL REVIEW

arrangements. Some 73% of this loan balance is at fixed rate by virtue of interest rate swaps in place for that purpose.

The Group's debt facilities are expected to be sufficient to fund the completion of its property development projects for the foreseeable future and its operations generally for the long-term. These facilities were put in place before the start of the 2007/08 financial year and, accordingly, the Group has not, to date, experienced any significant direct adverse impact on its financing arrangements as a result of the "credit crunch" and the related turbulence in the financial markets.

## 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. These risks and uncertainties are monitored by the Board on a regular basis.

## Football

The Group's income is affected by the performance and popularity of the first team. Significant sources of revenue are derived from strong performances in the Premier League, FA Cup and UEFA Champions League (or UEFA Cup) and the level of income will vary dependent upon the team's participation and performance in these competitions. A significant amount of the Group's income is derived from ticket sales to individual and corporate supporters who attend matches involving the first team at Emirates Stadium and elsewhere. The level of attendance may be influenced by a number of factors including the level of success of the team, admission prices, broadcasting coverage and general economic conditions. Demand for tickets is currently very high and all season tickets, including approximately 7,000 premium Club Level seats and 150 executive boxes have been sold out for the 2008/09 season. The Club currently has in excess of 47,000 supporters on its waiting list for season tickets.

The first team's success is significantly influenced by the performance of members of the playing staff and the performance of the football management team and, accordingly, the ability to attract and retain the highest quality coaching and playing staff is important to the Group's business prospects. The Group insures the members of its first team squad but such insurances may not be sufficient to mitigate all financial loss, such as fees from a potential transfer, in the event of a serious injury. The Group 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 for 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, 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.

## Commercial relationships

The Group derives a significant amount of revenue from sponsorship and other commercial relationships. The Group aims to

# FINANCIAL REVIEW

enter into long term arrangements with its key commercial partners thus securing certainty over the main components of its commercial income in the medium term. The Group's most important commercial contracts are: naming rights and shirt sponsorship contracts with Emirates Airline which expire in 2021 and 2014 respectively, a kit sponsorship contract with Nike which expires in 2011 and a catering contract with Delaware North which expires in 2026.

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 3 year contract basis and 2007/08 was the first year of a new contract.

## Foreign exchange and treasury

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 has facilities in place to 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 enters 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. As a consequence, the transfer of cash between the two business segments can, in general, only occur in circumstances governed by the terms of the applicable bank / debt finance arrangements. In addition, certain minimum bank deposits are required to be maintained as part of the security for the Group's bank / debt finance balances. The Group monitors its compliance with the applicable terms of its bank / 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 commercial contracts or other material transactions, such as player transfers, is receivable on an instalment basis then the Group will usually seek to obtain an appropriate bank or similar guarantee.

## Property

The Group expects to derive income from the sale of certain property development sites over the next two years - the main element of this being the sale of some 680 private residential apartments at Highbury Square. The achievement of these sales may be affected by the current downturn in the UK property market and the difficult conditions in the mortgage lending sector. The Group is monitoring the position closely.

The bank facilities which the Group has used to fund the Highbury Square development are ring-fenced from the financing of the football segment of the business. The final profits and cash to be released to the Club on completion of these property developments has not been budgeted by the Club and will be treated as a "bonus" when received – accordingly, there is no commitment to use any such profits and cash at any specific time for any specific purpose.


# FINANCIAL REVIEW

## Outlook

The Group has made a sound start to the new financial year. We have made a modest ticket price increase for season 2008/09 (2.8% on a weighted average basis) following which general admission and Club Tier season ticket renewals have once again been at the maximum level.

The second staging of the Emirates Cup has again proved to be a great commercial success with near capacity attendances to both days of the competition.

The sales of Alexander Hleb, Justin Hoyte and a sell-on share receivable on David Bentley's transfer from Blackburn will make a significant contribution to the profits to be reported on the sale of player registrations.

The most significant aspect of the 2008/09 results will be the sale completions to be reported on Highbury Square. Legal completions from the first phase of 65 apartments, released at the end of July, have so far generated sales proceeds of £18.7 million. We will continue to monitor sales closely over the coming months as the construction of more units is completed ready for release. The sales proceeds will be used to fund construction costs to complete and to repay the Highbury Square loan facility and this will result in a reduction in the Group's overall net debt.

In conclusion, both the property and football business segments start the 2008/09 year in a strong financial position, providing the sound financial platform which underpins our long-term strategy for the Club.

K. Friar

K J Friar
Managing Director
18 September 2008

# REVIEW OF THE 2007/2008 SEASON

## First Team

Arsenal's second season at Emirates Stadium saw the side remain unbeaten in 28 home games, but again silverware proved to be elusive.

A fine start to the season saw Arsène Wenger's team lead the Premier League for long periods, playing some excellent football. A difficult late February and early March saw the team drop points and ultimately finish four points behind Manchester United in third place. This was an improvement on the previous year where we finished fourth, twenty one points behind the leaders. The third place finish led to UEFA Champions League qualification for the eleventh successive season.

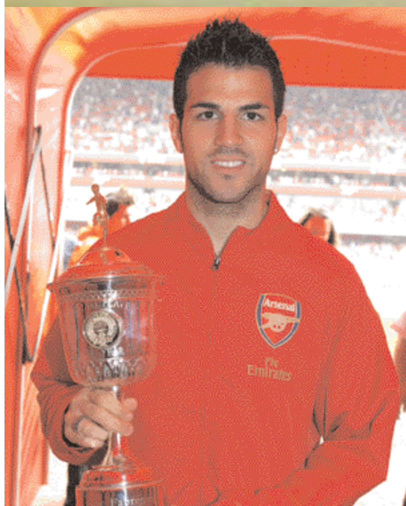
Qualification from the Group Stage of the UEFA Champions League was comfortably achieved, setting up a last-16 tie with reigning champions AC Milan. After a 0-0 draw at Emirates Stadium, an excellent performance in the second leg saw a 2-0 win for the team, the first time an English side had beaten the hosts at the San Siro. Unfortunately, two late goals in the quarter-final sent Liverpool through in a tie that Arsenal had largely dominated.

Once again there were impressive performances by young Arsenal sides in the Carling Cup with Newcastle United, Sheffield United and Blackburn Rovers being beaten before Tottenham Hotspur won the semi-final over two legs. In the FA Cup, Manchester United ended an injury-hit Arsenal side's interest at the fifth round stage.

There were many fine personal achievements over the season including Cesc Fabregas being named as the PFA Young Player of the Year and four Arsenal players - Bacary Sagna, Gael Clichy, Cesc Fabregas and Emmanuel Adebayor - all being named in the PFA Premier League team of the year. Several Arsenal players also represented their countries in the Euro 2008 championship including Cesc Fabregas, Robin Van Persie, William Gallas, Philippe Senderos, Johann Djourou, Lukasz Fabianski and Jens Lehmann.

### BARCLAYS PREMIER LEAGUE 2007/2008 FINAL TABLE

| | | HOME | | | | | AWAY | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | P | W | D | L | F | A | W | D | L | F | A | Pts | GD |
| Manchester United | 38 | 17 | 1 | 1 | 47 | 7 | 10 | 5 | 4 | 33 | 15 | +58 | 87 |
| Chelsea | 38 | 12 | 7 | 0 | 36 | 13 | 13 | 3 | 3 | 29 | 13 | +39 | 85 |
| **Arsenal** | **38** | **14** | **5** | **0** | **37** | **11** | **10** | **6** | **3** | **38** | **20** | **+44** | **83** |
| Liverpool | 38 | 12 | 6 | 1 | 43 | 13 | 9 | 7 | 3 | 24 | 15 | +39 | 76 |
| Everton | 38 | 11 | 4 | 4 | 34 | 17 | 8 | 4 | 7 | 21 | 16 | +22 | 65 |
| Aston Villa | 38 | 10 | 3 | 6 | 34 | 22 | 6 | 9 | 4 | 37 | 29 | +20 | 60 |
| Blackburn Rovers | 38 | 8 | 7 | 4 | 26 | 19 | 7 | 6 | 6 | 24 | 29 | +2 | 58 |
| Portsmouth | 38 | 7 | 8 | 4 | 24 | 14 | 9 | 1 | 9 | 24 | 26 | +8 | 57 |
| Manchester City | 38 | 11 | 4 | 4 | 28 | 20 | 4 | 6 | 9 | 17 | 33 | -8 | 55 |
| West Ham United | 38 | 7 | 7 | 5 | 24 | 24 | 6 | 3 | 10 | 18 | 26 | -8 | 49 |
| Tottenham Hotspur | 38 | 8 | 5 | 6 | 46 | 34 | 3 | 8 | 8 | 20 | 27 | +5 | 46 |
| Newcastle United | 38 | 8 | 5 | 6 | 25 | 26 | 3 | 5 | 11 | 20 | 39 | -20 | 43 |
| Middlesbrough | 38 | 7 | 5 | 7 | 27 | 23 | 3 | 7 | 9 | 16 | 30 | -10 | 42 |
| Wigan Athletic | 38 | 8 | 5 | 6 | 21 | 17 | 2 | 5 | 12 | 13 | 34 | -17 | 40 |
| Sunderland | 38 | 9 | 3 | 7 | 23 | 22 | 2 | 3 | 14 | 13 | 38 | -24 | 39 |
| Bolton Wanderers | 38 | 7 | 5 | 7 | 23 | 18 | 2 | 5 | 12 | 13 | 36 | -18 | 37 |
| Fulham | 38 | 5 | 5 | 9 | 22 | 31 | 3 | 7 | 9 | 16 | 29 | -22 | 36 |
| Reading | 38 | 8 | 2 | 9 | 19 | 25 | 2 | 4 | 13 | 22 | 41 | -25 | 36 |
| Birmingham City | 38 | 6 | 8 | 5 | 30 | 23 | 2 | 3 | 14 | 16 | 39 | -16 | 35 |
| Derby County | 38 | 1 | 5 | 13 | 12 | 43 | 0 | 3 | 16 | 8 | 46 | -69 | 11 |



# REVIEW OF THE 2007/2008 SEASON

## Reserves

Neil Banfield's Reserves side enjoyed a good season, finishing fourth in their division with a younger side than many of their rivals.

A seven-game unbeaten run at the end of the season highlighted the growing confidence and maturity of the side. At this level performances are as important as results, as it is an environment where many of the Club's younger players are taking their first steps outside of Academy football. Impressive results included a 5-1 win over Derby County and a draw with ten men against a strong Aston Villa outfit in the final game of the season.

Several youngsters progressed from the Reserves to the first-team squad at various points in the campaign - Kieran Gibbs, Fran Merida, Henri Lansbury, Mark Randall and Nacer Barazite all made Carling Cup appearances – and 16 year-old Jack Wilshere's late-season form ensured that he was among the youngsters named in Arsène Wenger's squad for pre-season games.

**FA BARCLAYCARD PREMIERSHIP RESERVE LEAGUE SOUTH 2007/2008 FINAL TABLE**

| | HOME | | | | | | AWAY | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | P | W | D | L | F | A | W | D | L | F | A | GD | Pts |
| Aston Villa | 18 | 7 | 2 | 0 | 24 | 6 | 3 | 3 | 3 | 14 | 11 | +21 | 35 |
| Reading | 18 | 4 | 4 | 1 | 18 | 8 | 4 | 3 | 2 | 14 | 8 | +16 | 31 |
| West Ham United | 18 | 6 | 2 | 1 | 16 | 8 | 3 | 2 | 4 | 16 | 13 | +11 | 31 |
| **Arsenal** | **18** | **4** | **2** | **3** | **14** | **9** | **4** | **4** | **1** | **12** | **8** | **+9** | **30** |
| Fulham | 18 | 6 | 2 | 1 | 17 | 7 | 2 | 2 | 5 | 10 | 18 | +2 | 28 |
| Chelsea | 18 | 2 | 4 | 3 | 11 | 10 | 3 | 3 | 3 | 12 | 11 | +2 | 22 |
| Birmingham City | 18 | 4 | 3 | 2 | 16 | 16 | 2 | 1 | 6 | 9 | 17 | -8 | 22 |
| Tottenham Hotspur | 18 | 5 | 1 | 3 | 12 | 9 | 0 | 5 | 4 | 10 | 15 | -2 | 21 |
| Portsmouth | 18 | 4 | 2 | 3 | 8 | 11 | 1 | 2 | 6 | 4 | 14 | -13 | 19 |
| Derby County | 18 | 1 | 3 | 5 | 6 | 24 | 0 | 0 | 9 | 7 | 27 | -38 | 6 |

## Youth

Steve Bould's Under-18 side had another fine season, winning their league group with a series of impressive, and often high-scoring, performances.

**FA PREMIER ACADEMY LEAGUE U18 GROUP A 2007/2008 FINAL TABLE**

| | P | W | D | L | F | A | Pts |
|---|---|---|---|---|---|---|---|
| **Arsenal** | **28** | **17** | **5** | **6** | **74** | **31** | **56** |
| West Ham United | 28 | 16 | 3 | 9 | 63 | 38 | 51 |
| Fulham | 28 | 14 | 7 | 7 | 39 | 28 | 49 |
| Portsmouth | 28 | 15 | 4 | 9 | 44 | 44 | 49 |
| Crystal Palace | 28 | 14 | 5 | 9 | 59 | 41 | 47 |
| Southampton | 28 | 13 | 4 | 11 | 43 | 52 | 43 |
| Chelsea | 28 | 11 | 6 | 11 | 58 | 52 | 39 |
| Charlton Athletic | 28 | 9 | 8 | 11 | 47 | 51 | 35 |
| Ipswich Town | 28 | 9 | 5 | 14 | 39 | 53 | 32 |
| Norwich City | 28 | 6 | 9 | 13 | 45 | 56 | 27 |
| Millwall | 28 | 4 | 6 | 18 | 30 | 64 | 18 |

# REVIEW OF THE 2007/2008 SEASON

## Youth (continued)

As a result of finishing top, they progressed into the Academy League Play-offs, in which the top teams from all of the regionalised groups are drawn. They narrowly lost 1-0 to Aston Villa in their semi-final, but this did not detract from a campaign in which they hit five goals or more on six separate occasions, often fielding a very young side.

There was to be no long FA Youth Cup run in 2007/08; Burnley were beaten 5-1 in the third round, but Liverpool narrowly beat the Under-18s 1-0 at Anfield at the next stage.

Several players made the step up to reserve-team football successfully during the season – in turn giving some of the Academy's schoolboys the chance of an early taste of Under-18 football, which can only benefit them in the future.

## Ladies

Arsenal Ladies maintained their position at the fore-front of the English game with a fine Premier League and FA Cup double in the 2007/08 season.

It was also a season of records. By the time Arsenal Ladies had lost 1-0 to Everton in the League Cup Final, they had won an amazing 58 consecutive matches in all domestic competitions. When the two sides met for a 0-0 draw in the league six weeks later, it also spelt the end of another fantastic achievement, 51 straight league wins.

The league was ultimately won by five points, from Everton, while a 4-1 win against Leeds United – in front of a record 24,582 crowd at Nottingham Forest's City Ground – secured the FA Cup. Among the scorers in that game was Lianne Sanderson, whose goal was her 51st of a remarkable season. It proved to be her last for the Club, as both she and defender Anita Asante joined Premier League rivals Chelsea during the close-season.

Relatively straightforward progression from a UEFA Cup group that the Club hosted resulted in a tie with French champions Olympique Lyonnais. After a 0-0 draw away from home, Arsenal Ladies exited the competition, losing 3-2 in the second leg.

**FA WOMEN'S PREMIER LEAGUE 2007/2008 FINAL TABLE**

| | P | W | D | L | F | A | Pts | GD |
|---|---|---|---|---|---|---|---|---|
| **Arsenal** | **22** | **20** | **2** | **0** | **85** | **15** | **70** | **62** |
| Everton | 22 | 18 | 3 | 1 | 69 | 14 | 55 | 57 |
| Leeds United | 22 | 12 | 4 | 6 | 45 | 33 | 12 | 40 |
| Bristol Academy | 22 | 10 | 4 | 8 | 45 | 35 | 10 | 34 |
| Chelsea | 22 | 9 | 5 | 8 | 40 | 35 | 5 | 32 |
| Doncaster Belles | 22 | 8 | 5 | 9 | 44 | 42 | 2 | 29 |
| Watford | 22 | 9 | 2 | 11 | 53 | 52 | 1 | 29 |
| Blackburn Rovers | 22 | 8 | 4 | 10 | 50 | 45 | 5 | 28 |
| Birmingham City | 22 | 7 | 4 | 11 | 34 | 39 | -5 | 25 |
| Liverpool | 22 | 6 | 4 | 12 | 31 | 51 | -20 | 22 |
| Cardiff City | 22 | 3 | 3 | 16 | 19 | 69 | -50 | 12 |
| Charlton Athletic | 22 | 0 | 4 | 18 | 6 | 91 | -85 | 4 |










# CHARITY OF THE SEASON 2007/2008

TreeHouse became Arsenal's nominated Charity of the Season last year taking over from The Willow Foundation. The partnership with TreeHouse, the national charity for autism education, has been a huge success raising a record-breaking £519,000 for the charity during the year.

TreeHouse was established in 1997 by a group of parents of autistic children including Fever Pitch author Nick Hornby. TreeHouse aims to transform the lives of all children with autism, and the lives of their families, by increasing the quantity and quality of autism education provision across the country.

The aim of this year's partnership was to raise £250,000 for sports facilities at the charity's new National Centre for Autism Education. Construction began on the new building located in north London, just three miles from Emirates Stadium, in April 2007 and when the new school year commences, in September 2008, TreeHouse will have moved into their new state-of-the art home.

Speaking about the partnership, Arsène Wenger said: "We are delighted to have smashed our target of raising £250,000 for TreeHouse as well as building awareness and understanding of autism education. The dedication of the parents and staff of TreeHouse has been phenomenal and all should be proud of the amazing work I have seen this ambitious charity do. The supporters have been fantastic with their involvement and generosity, it is thanks to them that TreeHouse can enjoy brand new sports facilities within their new home. On behalf of Arsenal, I wish the children, staff and parents of TreeHouse all the best in their new building."

TreeHouse founder Nick Hornby said: "There have been times during this partnership when we have had to pinch ourselves. I never thought I would see my son Danny, who is a pupil at TreeHouse, up on the big screens at Emirates Stadium. I certainly never thought I would get used to seeing him up there. TreeHouse has changed the lives of all of the children lucky enough to attend the school; this year, Arsenal has been a huge part of that."

In pioneering spirit, the partnership saw many 'firsts' for Arsenal's charitable involvement including the launch of the 'Be A Gooner. Be A Giver.' campaign. The initiative saw the Arsenal first team and many staff members donating a day's wages to TreeHouse. Supporters were encouraged to do the same at the charity's dedicated matchday, Arsenal v Chelsea, in December 2007. The campaign raised £140,000 in just one day, a magnificent achievement on behalf of the Club and its supporters from all over the world.

Arsenal in the Community coaches were closely involved in the partnership and had the opportunity to learn new skills when they hosted a football activity day with TreeHouse at the Club's Hale End training ground. It is hoped that, a further legacy of the partnership, will see Arsenal in the Community staff continue to coach TreeHouse pupils in their new sports facilities.

Several players, including William Gallas and Cesc Fabregas, along with Arsène Wenger visited TreeHouse's school for autistic youngsters. They joined Nick Hornby, Little Britain star Matt Lucas and TreeHouse pupils in taking part in 'Fantastic Feet', an activity which involved creating artwork with their feet and paint. Some of the artworks created on the day will find a home within the new building while others were auctioned at the Club's annual charity ball, The Ambition Ball, in May 2008 raising £5,000. The Ambition Ball was attended by the first team and a host of celebrity guests who helped raise over £228,000 for the charity, with another £57,000 going to the Arsenal Charitable Trust which itself helps worthy local and charitable causes.

Following this successful year, the Club welcomes Teenage Cancer Trust as its new Charity of the Season for 2008/09.

# ARSENAL IN THE COMMUNITY

Now in its 24th year, Arsenal in the Community continues to expand its initiatives and projects with the department remaining at the forefront of innovative community development within the Club's local, regional and global community, providing a wide range of sport, education, social inclusion and diversity programmes.

## Education and Training

Arsenal in the Community recognised its ability to contribute to this area over 20 years ago when the Club took on board the Government's 'Action Sport Scheme' aimed at engaging young people through sport and education. Today the Club's work with education and training complements a number of Government targets around health, education, social inclusion and regeneration.

### Arsenal Youth Training Programme

This is one of the department's most established projects which prepares 16 to 18 year-olds for employment within the sports industry. Along with Club partners, Springboard Islington, Arsenal Football Club has contributed to the development of over 350 young people to date.

### Arsenal BTEC National Certificate in Sport

In partnership with City of Westminster College, this two year course offers students the chance to gain qualifications and hands-on experience with a focus on development, fitness and sports coaching.

### Arsenal Sport and Learning

This project offers year 11 students a full-time alternative to mainstream education. It is aimed at young people who have become disengaged with the traditional school setting.  Pupils are introduced to a range of academic and sporting qualifications.

### Arsenal Entry 2 Employment

Entry 2 Employment targets young people between 16 and 19 years who are not in education training or employment. The 16 week course offers valuable skills and opportunities in literacy, numeracy, key skills and personal and social development.

### Arsenal Gap Year Programme

This programme gives young people aged 18 or over the opportunity to combine their passion for football with the chance to live, work, train and coach in London and other exciting destinations around the globe where Arsenal Soccer Schools are located.

### Arsenal Double Club

An innovative education and football programme offering a range of curriculum subjects, together with football coaching. The programme is currently running in more than 70 schools. Arsenal Double Clubs usually run as after-school clubs but the modules are increasingly used during lesson time. They are also being used in weekend clubs, holiday programmes, prisons and as part of alternative education schemes such as pupil referral units. The aim is to raise pupils' confidence and ability levels through teaching resources themed around Arsenal and football. These sessions are combined with a parallel programme of football coaching. In July 2008, Arsenal Double Club's European language modules were presented a prestigious award from the National Centre for Languages, CILT.

### Arsenal Study Support Centre

The Centre, based at Holloway School, is part of the national 'Playing for Success' scheme offering after-school courses in literacy, numeracy and ICT skills for local primary and secondary schools. Over 7,000 children have attended the centre since it opened its doors in May 2000. Each term a player joins the young participants to recognise their achievements. This year Arsenal first team defender Bacary Sagna

# ARSENAL IN THE COMMUNITY

and former Arsenal Ladies star Lianne Sanderson attended end of term events.

## Arsenal Learning Centre

Located on the Emirates Stadium site, the learning centre provides a range of education activities and courses to local adults, children and young people. The Club provides free computer training to around 450 people each year, helping students gain qualifications, improve their confidence in IT and have fun whilst learning new skills.

## Social Inclusion

Using the Arsenal brand and the power of sport has proven to be an effective combination in addressing many of the challenges young people face when growing up in an inner-city area.

### Arsenal Positive Futures

The Positive Futures programme sees Arsenal in the Community sports officers coaching football up to five nights a week as well as engaging young people in a wider range of activities such as DJ workshops, basketball, cricket and recreational trips. The scheme operates on nine local estates and the Club also works with various agencies in order to reach more young people who could benefit from the programme. During the 2007/08 season, both Tomas Rosicky and Armand Traore met Positive Futures participants to reward them for their hard work with the scheme.

### Arsenal Kickz

This initiative is a national programme that brings together the football industry with the police and other partners to help young people realise their potential. Arsenal Kickz has rapidly evolved since it began in Islington in 2006 and now delivers the project across three London boroughs. The project at Elthorne Park in Islington, which sees Arsenal in the Community coaches delivering football sessions five times a week, has been a catalyst for regeneration. Dennis Bergkamp donated £80,000 from his testimonial fund to this project which was supported by a further £170,000 from Islington Council to provide much needed upgrades to the facilities in the park and a dedicated Dennis Bergkamp pitch.

## Sport

### Arsenal Soccer Schools

www.playthearsenalway.com/Arsenal Soccer Schools have been running for over 20 years giving boys and girls aged between 5 and 15 years old a chance to get active, have fun and improve soccer skills. Arsenal Soccer Schools operate across the UK and we also have overseas schools in 16 countries. Many of the Club's domestic and international soccer schools come together at the Annual International Soccer Festival. The event is now firmly established as the top event of its kind in the south of England and involves around 150 teams.

### Disability Sports Programme

The Club continues to run monthly coaching sessions for visually impaired children and adults with learning difficulties. Working in partnership with The National Deaf Children's Society (NDCS) the Club also makes football more accessible to deaf children. The Club holds weekly coaching sessions for the youngsters on top of its links with St John's Arsenal Deaf FC.

### Arsenal Hockey

A unique programme that began 19 years ago, Arsenal Hockey is an inner-city hockey project that covers the whole range of the sports development pathway from participation to elite performers. From the introductory sessions at primary schools, players are encouraged to attend after-

# ARSENAL IN THE COMMUNITY

school clubs from which junior teams are established.  As a progression from these teams, players are selected to play for the Gunners Hockey Team that represents Old Loughtonians Hockey Club based in Essex.

## Hertsmere Borough Council's Community Sports Programme

Launched in 2007 with the help of Theo Walcott, the Community Sports Programme sees Hertsmere Borough Council working in partnership with Arsenal Football Club over the next five years in a range of exciting initiatives including the delivery of the Arsenal Double Club, school holiday activities, a diversionary project and girls' football. The scheme is funded by the Club and sees the training ground open its indoor sports facility for weekly Double Club sessions for participating youngsters.

## Diversity

## Arsenal for Everyone

Launched in September 2007, Arsenal For Everyone is an initiative which aims to celebrate diversity at the Club. The initiative has been set up as part of the Club's work towards achieving the intermediate level of the 'Racial Equality Standard' in conjunction with Kick It Out.

## World on our Doorstep

'World on our Doorstep' sees Arsenal in the Community staff celebrating multiculturalism with local school children. The initiative aims to highlight and embrace the many different cultures and nationalities which make up Islington and parallels are drawn with the Arsenal team. An Arsenal player joins the youngsters for a special event at Emirates Stadium each year and this year's event was hosted by Gael Clichy.

## Arsenal Charitable Trust

Since its formation in 1992, the Arsenal Charitable Trust has raised more than £2 million. Each year around £50,000 is distributed in small amounts to worthy causes. Hospitals, disability groups, charities for young children and young people feature prominently amongst the donations made by the Trust.

Last season, some of the organisations which benefited from donations were The Whittington Hospital's 'Building for Babies' appeal, Teenage Cancer Trust, St John's Arsenal Deaf Football Club and The London Playing Fields Foundation.
Over the years, an emphasis on fun and enjoyment has driven the Trust's fundraising efforts. For over 16 years, ex-professional footballers, sports personalities and celebrity supporters have been playing regularly for the Arsenal Ex-Pro and Celebrity Charity XI team to raise money for the Trust and other worthwhile causes.

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2008.

## 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 29 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 (2007 - £Nil).

## Directors and their interests

The directors of the company, all of whom served throughout the year, together with details of their interests in the company's share capital are set out below:

| | Ordinary shares of £1 each | |
|---|---|---|
| | **2008** | **2007** |
| P.D. Hill-Wood | 500 | 500 |
| Lady Nina Bracewell-Smith | 9,893 | 9,893 |
| R.C.L. Carr | 2,722 | 2,722 |
| D.D. Fiszman | 15,000 | 15,000 |
| K.J. Friar OBE | 47 | 47 |
| Lord Harris of Peckham | 53 | 53 |
| Sir Chips Keswick | 40 | 40 |

In addition K.G. Edelman served as a director until 1 May 2008.

In accordance with the provisions of Article 88 of the Articles of Association P.D. Hill-Wood, Lady Nina Bracewell-Smith and R.C.L. Carr retire by rotation and, being eligible, offer themselves for re-election at the company's Annual General Meeting.

## Substantial shareholdings

In addition to the directors' interests set out above the Company has been notified of the following interests in over 3 per cent of its issued share capital at 15 September 2008:

| | **Shares** | **%** |
|---|---|---|
| Red and White Securities Limited | 14,948 | 24.0 |
| KSE UK Inc. | 7,701 | 12.4 |

## Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £44,466 (2007 - £55,985).

## 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 45 days (2007 - 46 days).

# DIRECTORS' REPORT

## 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 re-training.

The Group maintains its own health, safety and environmental policies covering all aspect 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 the employees and the environment.

## Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the financial statements for the company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the directors to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that period and which comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 auditors

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 1985) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

## Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

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

D Miles
Secretary
18 September 2008

Registered office:
Highbury House
75 Drayton Park
London.
N5 1BU

# CORPORATE GOVERNANCE

The directors acknowledge the importance of the Combined Code and have complied with its requirements so far as is appropriate to a Group of the size and nature of Arsenal Holdings Plc.

## Going concern

The directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis.

## Directors

The Board currently consists of one executive director and six non-executive directors. The Group is currently in the process of recruiting a new managing director. The Board meets on a monthly 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 four non-executive directors, Sir Chips Keswick (Chairman), D.D. Fiszman, Lord Harris of Peckham and Lady Nina Bracewell-Smith.

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 auditors.

## Nominations Committee

The Nominations Committee is chaired by Lord Harris of Peckham and its other members are Sir Chips Keswick and Lady Nina Bracewell-Smith.

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 accounts of existing and proposed corporate governance requirements.

## Remuneration Committee

The Remuneration Report is set out on page 27.

# THE REMUNERATION REPORT

## The Remuneration Committee

The Committee consists of three non-executive directors, P.D. Hill-Wood (Chairman), Lord Harris of Peckham, and R.C.L. Carr.

## 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 contributions 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.

**P.D. Hill-Wood**
**Chairman of the Remuneration Committee**
18 September 2008

# INDEPENDENT AUDITORS’ REPORT TO THE SHAREHOLDERS OF ARSENAL HOLDINGS PLC

We have audited the group and individual company financial statements (the "financial statements") of Arsenal Holdings Plc for the year ended 31 May 2008 which comprise the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company’s members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors’ report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group’s and the individual company's affairs as at 31 May 2008 and of the group’s profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors’ report is consistent with the financial statements.

Deloitte & Touche LLP

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors, London
18 September 2008

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2008

| | Note | 2008 Operations excluding player trading £000's | 2008 Player trading £000's | 2008 Total £000's | 2007 Operations excluding player trading £000's | 2007 Player trading £000's | 2007 Total £000's |
|---|---|---|---|---|---|---|---|
| **Turnover of the group including its share of joint ventures** | | 224,541 | 472 | 225,013 | 201,443 | 544 | 201,987 |
| Share of turnover of joint venture | | ( 2,043 ) | - | ( 2,043 ) | ( 1,144 ) | - | ( 1,144 ) |
| **Group turnover** | 3 | 222,498 | 472 | 222,970 | 200,299 | 544 | 200,843 |
| Operating expenses | 4 | ( 174,480 ) | ( 21,757 ) | ( 196,237 ) | ( 158,685 ) | ( 18,782 ) | ( 177,467 ) |
| **Operating profit/(loss)** | | 48,018 | ( 21,285 ) | 26,733 | 41,614 | ( 18,238 ) | 23,376 |
| Share of joint venture operating result | | 469 | - | 469 | 435 | - | 435 |
| Profit on disposal of player registrations | | - | 26,458 | 26,458 | - | 18,467 | 18,467 |
| **Profit on ordinary activities before finance charges** | | 48,487 | 5,173 | 53,660 | 42,049 | 229 | 42,278 |
| Net finance charges - ordinary | 5 | | | ( 16,992 ) | | | ( 15,304 ) |
| Net finance charges - exceptional | 5 | | | - | | | ( 21,401 ) |
| Net finance charges | | | | ( 16,992 ) | | | ( 36,705 ) |
| **Profit on ordinary activities before taxation** | | | | 36,668 | | | 5,573 |
| Taxation | 8 | | | ( 10,942 ) | | | ( 2,757 ) |
| **Profit after taxation retained for the financial year** | | | | 25,726 | | | 2,816 |
| **Earnings per share** | | | | | | | |
| From operationss excluding exceptional charges | | | | | | | |
| Basic and diluted | 9 | | | £413.49 | | | £286.05 |
| From operations after exceptional charges | | | | | | | |
| Basic and diluted | 9 | | | £413.49 | | | £45.26 |

Player trading consists primarily of 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 SHEET

At 31 May 2008

| | Note | Group 2008 £000's | Group 2007 £000's | Company 2008 £000's | Company 2007 £000's |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible fixed assets | 10 | 449,517 | 455,300 | - | - |
| Intangible fixed assets | 11 | 55,665 | 64,671 | - | - |
| Investments | 12 | 406 | 76 | 30,059 | 30,059 |
| | | 505,588 | 520,047 | 30,059 | 30,059 |
| **Current assets** | | | | | |
| Stock – development properties | 13 | 187,964 | 100,080 | - | - |
| Stock – retail merchandise | | 1,218 | 1,166 | - | - |
| Debtors - due within one year | 14 | 32,340 | 31,028 | 28 | - |
| - due after one year | 14 | 13,939 | 5,117 | 101,186 | 114,904 |
| Cash at bank and in hand | 15 | 93,264 | 73,857 | 14,758 | 433 |
| | | 328,725 | 211,248 | 115,972 | 115,337 |
| **Creditors: amounts falling due within one year** | 16 | (334,252) | (150,017) | (458) | (439) |
| **Net current (liabilities)/assets** | | (5,527) | 61,231 | 115,514 | 114,898 |
| **Total assets less current liabilities** | | 500,061 | 581,278 | 145,573 | 144,957 |
| **Creditors: amounts falling due after more than one year** | 17 | (310,203) | (416,120) | (13,130) | (11,031) |
| **Provisions for liabilities and charges** | 19 | (30,758) | (31,784) | - | - |
| **Net assets** | | 159,100 | 133,374 | 132,443 | 133,926 |
| **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 | 102,342 | 76,616 | 102,384 | 103,867 |
| **Shareholders' funds** | | 159,100 | 133,374 | 132,443 | 133,926 |

These financial statements were approved and authorised for issue by the Board of Directors on 18 September 2008.

Signed on behalf of the Board of Directors

P.D. Hill-Wood
Director

P D Hill-Wood

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2008

| | Note | 2008<br>£000's | 2007<br>£000's |
|---|---|---|---|
| **Net cash (outflow)/inflow from operating activities** | 25a | ( 21,013 ) | 77,332 |
| Player registrations | 25d | 4,010 | ( 8,009 ) |
| Returns on investment and servicing of finance | 25d | ( 19,655 ) | ( 24,603 ) |
| Taxation | | ( 4,177 ) | ( 54 ) |
| Capital expenditure | 25d | ( 6,944 ) | ( 37,949 ) |
| Net cash (outflow)/inflow before financing | | ( 47,779 ) | 6,717 |
| Financing | 25d | 67,186 | 31,542 |
| **Increase in cash in the year** | | 19,407 | 38,259 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 1. Principal accounting policies

### (a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. 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 2008.

Assets and liabilities held in the Group's employee benefit trusts are included in the consolidation in accordance with the requirements of UITF 32. Long term receivables included in the trust's balance sheet have been discounted to their net present value by applying a discount rate of 5%.

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained loss for the year was £1.5 million (2007 – profit of £0.4 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 another party under a contractual arrangement.

The Group's share of the results of its joint venture is 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 and other match/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. 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. Where contracting work is undertaken for a third party and the outcome of the construction contract can be estimated reliably, revenue and costs are recognised by reference to the degree of completion of the contract activity at the balance sheet date.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Depreciation

Depreciation is calculated to reduce the cost 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 20% per annum |
| Motor vehicles | 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.

Up to the date of sale 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.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 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. Provision is made for any impairment and player registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

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.

Profits or losses on the sale of players represent the transfer fee receivable, net of any transaction costs, less the unamortised cost of the 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) 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.

### (m) 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 2008/09 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.

### (n) Leases

Rentals payable under operating leases are charged to the profit and loss account in the period in which they fall due.

### (o) 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.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (o) Pensions (continued)

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.

### (p) 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 | |
|---|---|---|---|---|---|---|
| | 2008<br>£000's | 2007<br>£000's | 2008<br>£000's | 2007<br>£000's | 2008<br>£000's | 2007<br>£000's |
| **Turnover** | 207,723 | 177,051 | 15,247 | 23,792 | 222,970 | 200,843 |
| **Segment operating profit** | 26,719 | 14,408 | 14 | 8,968 | 26,733 | 23,376 |
| Share of operating profit of joint venture | 469 | 435 | - | - | 469 | 435 |
| Profit on disposal of player registrations | 26,458 | 18,467 | - | - | 26,458 | 18,467 |
| Net finance income charges | (13,947) | (33,854) | (3,045) | (2,851) | (16,992) | (36,705) |
| **Profit/(Loss) on ordinary activities before taxation** | 39,699 | (544) | (3,031) | 6,117 | 36,668 | 5,573 |
| **Segment net assets/(liabilities)** | 162,138 | 135,065 | (3,038) | (1,691) | 159,100 | 133,374 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 3. Turnover

| Turnover, all of which originates in the UK, comprises the following: | 2008 £000's | 2007 £000's |
|---|---|---|
| Gate and other match day revenues | 94,580 | 90,613 |
| Broadcasting | 68,360 | 44,312 |
| Retail | 13,052 | 12,064 |
| Commercial | 31,259 | 29,518 |
| Property development | 15,247 | 23,792 |
| Player trading | 472 | 544 |
| | 222,970 | 200,843 |

## 4. Operating expenses

| Operating expenses comprise: | 2008 £000's | 2007 £000's |
|---|---|---|
| Amortisation of player registrations | 21,757 | 18,782 |
| Depreciation (less amortisation of grants) | 11,553 | 9,623 |
| Total depreciation and amortisation | 33,310 | 28,405 |
| Staff costs (see note 6) | 101,302 | 89,703 |
| Cost of property sales | 15,022 | 14,682 |
| Other operating charges | 46,603 | 44,677 |
| **Total operating expenses** | 196,237 | 177,467 |

| | | |
|---|---|---|
| Other operating charges include: | | |
| Auditors' remuneration | | |
| - audit | 155 | 142 |
| - non-audit services | 452 | 415 |
| Operating lease payments | | |
| - plant and machinery | 152 | 158 |
| - other | 761 | 737 |
| Profit on disposal of subsidiary company | - | ( 200 ) |
| Profit on disposal of tangible fixed assets | ( 19 ) | ( 836 ) |

Included in the above are audit fees of £21,275 (2007 - £15,000) in respect of the company.

The fees for non-audit services in the table above primarily relate to advice for corporate and employee taxation. In addition to the amounts disclosed above the Group incurred non-audit services fees payable to the company's auditors in relation to its ongoing property developments of £28,800 (2007 - £1,900) (included in development property stocks). Further non-audit fees of £Nil (2007 - £75,100), relating to the refinancing of the Group's bank debts, are included in costs of raising finance and £60,000 (2007 - £Nil), relating to software development, is included within additions to tangible fixed assets.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 5. Net finance charges

| | 2008 | 2007 |
|---|---|---|
| **Interest payable and similar charges:** | £000's | £000's |
| Bank loans and overdrafts | ( 7,307 ) | ( 5,723 ) |
| Fixed/floating rate bonds | (14,637 ) | ( 12,761 ) |
| Other | ( 1,844 ) | ( 505 ) |
| Costs of raising long term finance | ( 2,219 ) | ( 2,816 ) |
| | ( 26,007 ) | ( 21,805 ) |
| Finance costs capitalised | 4,978 | 3,813 |
| Total interest payable and similar charges | (21,029 ) | ( 17,992 ) |
| Interest receivable | 4,037 | 2,688 |
| Net finance charges - ordinary | ( 16,992 ) | ( 15,304 ) |
| Finance charges - exceptional | - | ( 21,401 ) |
| | ( 16,992 ) | ( 36,705 ) |

Of the interest capitalised £Nil (2007 - £2,960,000) is included in tangible fixed assets and £4,978,000 (2007 - £853,000) is included in stock development properties.

The exceptional charge in the prior year related to the refinancing of the project finance bank loans which the Group had used to fund the development of Emirates Stadium.

## 6. Employees

| | 2008 | 2007 |
|---|---|---|
| The average number of persons employed by the Group during the year was: | **Number** | **Number** |
| Playing staff | 54 | 52 |
| Training staff | 31 | 31 |
| Administrative staff | 197 | 206 |
| Ground staff | 97 | 85 |
| | 379 | 374 |

In addition the Group employs on average 902 temporary staff on match days (2007 – 879).

| | £000's | £000's |
|---|---|---|
| **Staff costs:** | | |
| Wages and salaries | 88,258 | 77,650 |
| Social security costs | 10,238 | 9,501 |
| Other pension costs | 2,806 | 2,552 |
| | 101,302 | 89,703 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 7. Directors' emoluments

| | 2008 | | | | | | 2007 |
|---|---|---|---|---|---|---|---|
| | **Salary/fees** | **Bonus** | **Benefits** | **Sub total** | **Pension** | **Total** | **Total** |
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| PD Hill Wood | 65 | - | 10 | 75 | - | 75 | 76 |
| RCL Carr | 25 | - | - | 25 | - | 25 | 25 |
| Lady Nina Bracewell-Smith | 25 | - | - | 25 | - | 25 | 25 |
| KJ Friar OBE | 275 | - | 23 | 298 | - | 298 | 576 |
| DD Fiszman | 25 | - | - | 25 | - | 25 | 25 |
| Sir Chips Keswick | 25 | - | - | 25 | - | 25 | 25 |
| Lord Harris of Peckham | - | - | - | - | - | - | - |
| KG Edelman | 684 | 367 | 5 | 1,056 | - | 1,056 | 1,162 |
| DB Dein | - | - | - | - | - | - | 315 |
| | 1,124 | 367 | 38 | 1,529 | - | 1,529 | 2,229 |

Lord Harris of Peckham waived director's fees of £25,000 and the Group donated the amount waived to an appropriate charity.

In addition to the amounts disclosed above £1,667,500 was receivable by K.G. Edelman, following his resignation as a director, as compensation for his loss of office and for consultancy services.

## 8. Tax on profit on ordinary activities

| | **2008** | **2007** |
|---|---|---|
| | £000's | £000's |
| UK Corporation tax charge at 29.67% (2007 – 30%) | 11,828 | 151 |
| (Over)/under provision in respect of prior years | - | - |
| **Total current taxation** | 11,828 | 151 |
| **Deferred taxation (see note 19)** | | |
| Origination and reversal of timing differences | 1,298 | 2,707 |
| Impact of change in tax rate | ( 1,274 ) | - |
| Over provision in respect of prior years | ( 910 ) | ( 101 ) |
| **Total tax on profit on ordinary activities** | 10,942 | 2,757 |

The rate of corporation tax changed from 30% to 28% on 1 April 2008.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 8. Tax on profit on ordinary activities (continued)

| | 2008<br>£000's | 2007<br>£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 is as follows: | | |
| **Group profit on ordinary activities before tax** | 36,668 | 5,573 |
| Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 29.67% (2007 – 30%) | 10,880 | 1,672 |
| Effects of: | | |
| Capital allowances in excess of depreciation | ( 3,287 ) | ( 1,823 ) |
| Other timing differences | 1,989 | ( 884 ) |
| Expenses not deductible for tax purposes | 2,246 | 1,186 |
| Adjustments to tax charge in respect of prior years | - | - |
| **Group current tax for the year** | 11,828 | 151 |

The Group tax charge in future years may be affected by:

- the amount of capital investment which is expected to be maintained at a level such that in the short term the Group expects to be able to claim capital allowances in excess of depreciation; and
- the legislation relating to taxation of profits on disposal of intangible assets, including player registrations, and rollover relief thereon.

## 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 - 62,217 shares (2007 - 62,217 shares).

The calculation of earnings per share (basic and diluted) is based on the following data:-

| | 2008<br>£000's | 2007<br>£000's |
|---|---|---|
| Earnings attributable to equity shareholders (retained profit) | 25,726 | 2,816 |
| Adjustment to exclude exceptional charges net of tax relief | - | 14,981 |
| Earnings for the purpose of earnings per share excluding exceptional charges | 25,726 | 17,797 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 10. Tangible fixed assets

| | Freehold properties £000's | Leasehold properties £000's | Plant and equipment £000's | Total £000's |
|---|---|---|---|---|
| **Group** | | | | |
| **Cost** | | | | |
| At 1 June 2007 | 385,956 | 6,456 | 78,978 | 471,390 |
| Additions | 3,332 | 78 | 2,495 | 5,905 |
| Disposals | - | - | ( 564 ) | ( 564 ) |
| At 31 May 2008 | 389,288 | 6,534 | 80,909 | 476,731 |
| **Depreciation** | | | | |
| At 1 June 2007 | 6,961 | 1,950 | 7,179 | 16,090 |
| Charge for the year | 5,429 | 412 | 5,847 | 11,688 |
| Disposals | - | - | ( 564 ) | ( 564 ) |
| At 31 May 2008 | 12,390 | 2,362 | 12,462 | 27,214 |
| **Net book value** | | | | |
| At 31 May 2008 | 376,898 | 4,172 | 68,447 | 449,517 |
| At 31 May 2007 | 378,995 | 4,506 | 71,799 | 455,300 |

At 31 May 2008 the Group had contracted capital commitments of £4.5 million (2007 - £6.3 million).

Cost includes a cumulative amount of £38.6 million ( 2007 - £38.6 million ) of finance charges capitalised during the period in which certain tangible fixed assets were constructed.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 11. Intangible fixed assets

| | |
|---|---|
| **Cost of player registrations** | £000's |
| At 1 June 2007 | 122,215 |
| Additions | 27,490 |
| Disposals | ( 39,785 ) |
| At 31 May 2008 | 109,920 |
| **Amortisation of player registrations** | |
| At 1 June 2007 | 57,544 |
| Charge for the year | 21,757 |
| Disposals | ( 25,046 ) |
| At 31 May 2008 | 54,255 |
| **Net book value** | |
| At 31 May 2008 | 55,665 |
| At 31 May 2007 | 64,671 |

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 signicantly greater than their book value.

## 12. Investments

| | **Group** | |
|---|---|---|
| **Investment in joint venture** | **2008** | **2007** |
| | £000's | £000's |
| Investments at cost | 20,000 | 20,000 |
| Accumulated share of profit of joint venture | 406 | 76 |
| Adjustment to eliminate unrealised profit on sale of intangible assets | ( 20,000 ) | ( 20,000 ) |
| Share of joint venture | 406 | 76 |

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 and controls 50 per cent of the voting rights. The Group's share of the assets included in the unaudited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2008 is as follows:

| | **2008** | **2007** |
|---|---|---|
| | £000's | £000's |
| Fixed assets | 303 | 17 |
| Current assets | 1,312 | 1,232 |
| Liabilities | ( 1,209 ) | ( 1,173 ) |
| | 406 | 76 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 12. Investments (continued)

| **Investments in subsidiary undertakings** | **Company** |
|---|---|
| | £000's |
| Balance at 1 June 2007 and 31 May 2008 | 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 |
| 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 |
| Gillespie (Jersey) Limited* | Jersey | 100% | Property holding |
| Gillespie Holding Company (Jersey) Limited* | Jersey | 100% | Property holding |

## 13. Stocks - 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** | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | £000's | £000's | £000's | £000's |
| **Amounts recoverable within one year:** | | | | |
| Trade debtors | 9,624 | 10,115 | - | - |
| Other debtors | 10,555 | 7,642 | - | - |
| Prepayments and accrued income | 12,161 | 13,271 | 28 | - |
| | 32,340 | 31,028 | 28 | - |
| **Amounts recoverable in more than one year:** | | | | |
| Trade debtors | 2,500 | 2,500 | - | - |
| Amount due from group undertakings | - | - | 101,186 | 114,904 |
| Other debtors | 8,845 | 1,778 | - | - |
| Prepayments and accrued income | 2,594 | 839 | - | - |
| | 13,939 | 5,117 | 101,186 | 114,904 |

Other debtors, of £19.40 million, include £18.13 million in respect of player transfers (2007 - £9.0 million) of which £8.71 million is recoverable in more than one year.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 15. Cash at bank and in hand

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** £000's | **2007** £000's | **2008** £000's | **2007** £000's |
| Debt service reserve accounts | 31,553 | 32,952 | - | - |
| Other accounts | 61,711 | 40,905 | 14,758 | 433 |
| | 93,264 | 73,857 | 14,758 | 433 |

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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** £000's | **2007** £000's | **2008** £000's | **2007** £000's |
| Fixed rate bonds – secured | 4,381 | 4,122 | - | - |
| Bank loans and overdrafts – secured | 138,454 | - | - | - |
| Trade creditors | 7,844 | 15,723 | - | - |
| Amounts due to group undertakings | - | - | - | 2 |
| Corporation tax | 12,142 | 4,629 | 437 | 437 |
| Other tax and social security | 15,922 | 12,425 | - | - |
| Other creditors and loans | 13,464 | 12,185 | - | - |
| Accruals and deferred income | 142,045 | 100,933 | 21 | - |
| | 334,252 | 150,017 | 458 | 439 |

Bank loans of £133.5 million are categorised as creditors falling due within one year on the basis of their expected repayment profile. The actual term date for repayment of the loan concerned is April 2010.

Other creditors, above and as disclosed in note 17, include £15.98 million (2007 - £16.5 million) in respect of player transfers.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** £000's | **2007** £000's | **2008** £000's | **2007** £000's |
| Fixed rate bonds - secured | 186,662 | 191,569 | - | - |
| Floating rate bonds - secured | 56,064 | 56,179 | - | - |
| Bank loans - secured | - | 62,879 | - | - |
| Debenture loans | 25,776 | 25,463 | 11,344 | 11,031 |
| Amounts due to group undertakings | - | - | 1,786 | - |
| Other creditors | 5,340 | 6,638 | - | - |
| Grants | 4,579 | 4,712 | - | - |
| Deferred income | 31,782 | 68,680 | - | - |
| | 310,203 | 416,120 | 13,130 | 11,031 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | £000's | £000's | £000's | £000's |
| Debenture loans comprise: | | | | |
| Par value of debentures plus accumulated interest | 26,087 | 25,774 | 11,655 | 11,342 |
| Costs of raising finance | (311) | (311) | (311) | (311) |
| | 25,776 | 25,463 | 11,344 | 11,031 |

Under the issue terms debentures with a par value of £14,438,000 are repayable at par after 134 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 20 years and carry cumulative compound interest at 2.75% per annum.

| | Group | |
|---|---|---|
| The bank loans above and disclosed in note 16 comprise: | 2008 | 2007 |
| | £'000 | £'000 |
| Bank loans | 139,346 | 64,469 |
| Costs of raising finance | (892) | (1,590) |
| | 138,454 | 62,879 |
| Due within one year | 138,454 | - |
| Due after more than one year | - | 62,879 |
| | 138,454 | 62,879 |

The costs of raising bank loan finance are amortised to the profit and loss account over the term of the loan. The amortisation charge for the year was £1,090,000 (2007 - £959,000).

The fixed rate bonds above and disclosed in note 16 comprise:

| | 2008 | 2007 |
|---|---|---|
| | £'000 | £'000 |
| Fixed rate bonds | 200,204 | 205,231 |
| Costs of raising finance | (9,161) | (9,540) |
| | 191,043 | 195,691 |
| Due within one year | 4,381 | 4,122 |
| Due after more than one year | 186,662 | 191,569 |
| | 191,043 | 195,691 |

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

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

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

The floating rate bonds above comprise:

| | 2008 | 2007 |
|---|---|---|
| | £'000 | £'000 |
| Floating rate bonds | 50,000 | 50,000 |
| Interest rate swap | 6,485 | 6,765 |
| Costs of raising finance | ( 421 ) | ( 586 ) |
| | 56,064 | 56,179 |
| Due within one year | - | - |
| Due after more than one year | 56,064 | 56,179 |
| | 56,064 | 56,179 |

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 £975,000 (2007 - £785,000).

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 0.50% of fixed rate bond principal outstanding and 0.65% of the floating rate bond principal outstanding.

The Group's fixed rate bonds, floating rate bonds and bank loans 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 and the related bank guarantees, by fixed charges over £53.2 million (2007 - £45.5 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:

| | 2008 | 2007 |
|---|---|---|
| | £'000 | £'000 |
| Between one and two years | 5,587 | 5,300 |
| Between two and five years | 18,644 | 82,155 |
| After five years | 246,760 | 252,992 |
| | 270,991 | 340,447 |
| Within one year | 144,646 | 5,027 |
| Total debt | 415,637 | 345,474 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 18. Derivative financial instruments

The Group's financial instruments comprise mainly of cash and bank balances, fixed and floating rate bonds, bank loans, 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 _ 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 2008 was as follows:

| | **Fixed rate 2008** £000's | **Floating rate 2008** £000's | **Interest free 2008** £000's | **Total 2008** £000's | **Weighted average fixed rate** % | **Weighted average period for which rate is fixed** yrs |
|---|---|---|---|---|---|---|
| Bonds – fixed rate | 200,204 | - | - | 200,204 | 5.6 | 21 |
| Bonds – floating rate | 50,000 | - | - | 50,000 | 6.6 | 23 |
| Bank loans | 98,460 | 40,886 | - | 139,346 | 6.6 | 1 |
| Debenture loans | 11,655 | - | 14,432 | 26,087 | 2.8 | 20 |
| | 360,319 | 40,886 | 14,432 | 415,637 | | |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 18. Derivative financial instruments (continued)

The interest rate profile at 31 May 2007 for comparative purposes was:-

| | Fixed rate 2007 £000's | Floating rate 2007 £000's | Interest free 2007 £000's | Total 2007 £000's | Weighted average fixed rate % | Weighted average period for which rate is fixed yrs |
|---|---|---|---|---|---|---|
| Bonds - fixed rate | 205,231 | - | - | 205,231 | 5.8 | 23 |
| Bonds - floating rate | 50,000 | - | - | 50,000 | 6.6 | 25 |
| Bank Loans | 50,156 | 14,313 | - | 64,469 | 6.6 | 3 |
| Debenture Loans | 11,342 | - | 14,432 | 25,774 | 2.8 | 21 |
| | 316,729 | 14,313 | 14,432 | 345,474 | | |

The interest rate on the floating rate element of bank loans is currently set at LIBOR plus margins ranging from 1.4% to 1.7% (2007 - 1.4%). 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 £6.3 million (2007 - £7.7 million) on which interest is currently paid at a fixed rate of 2%.

**Borrowing facilities**

The Group had undrawn committed borrowing facilities at the balance sheet date as follows:

| | 2008 £000's | 2007 £000's |
|---|---|---|
| Expiring in: | | |
| One year or less | 62,654 | 50,000 |
| Over two years | - | 72,531 |
| | 62,564 | 122,531 |

**Fair values**

The fair value of all financial instruments at 31 May 2007 and 2008, other than interest rate swaps as disclosed below, was not materially different from their book value.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Book value £000's | Fair value £000's | Book value £000's | Fair value £000's |
| Derivative financial instruments held to manage the Group's interest rate profile: | | | | |
| Interest rate swaps | - | ( 4,750 ) | - | ( 3,287 ) |

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.

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.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 18. Derivative financial instruments (continued)

| An analysis of these unrecognised gains and losses is as follows: | Group 2008 £000's | Group 2007 £000's |
|---|---|---|
| Unrecognised losses at start of year | ( 3,287 ) | ( 7,440 ) |
| Unrecognised (losses)/gains arising in year | (1,463 ) | 4,153 |
| Unrecognised losses at end of year | ( 4,750 ) | ( 3,287 ) |
| Of which: | | |
| Gains and losses expected to be recognised in 2008/09 | ( 4,750 ) | (3,287 ) |
| Gains and losses expected to be recognised later than 2008/09 | - | - |

**Foreign currencies**

Included in other debtors are amounts of £9.5 million (2007 - £3.4 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £4.5 million (2007 - £4.1 million) denominated in Euros.

Included in other creditors are amounts of £0.5 million (2007 - £4.6 million) denominated in Euros and £0.2 million (2007 - £0.9 million) denominated in US dollars. Included in provisions are amounts of £4.7 million (2007 - £3.7 million) denominated in Euros and £1.3 million (2007 - £1.0) denominated in US dollars.

## 19. Provisions for liabilities and charges

| | Group 2008 £000's | Group 2007 £000's |
|---|---|---|
| Pensions provision (see note 29 (b)) | 576 | 705 |
| Deferred taxation | 18,066 | 18,953 |
| Transfers | 12,116 | 12,126 |
| | 30,758 | 31,784 |

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 £5.8 million were made during the year, £2.7 million of provisions were reclassified as creditors and £3.1 million of provisions were cancelled as no longer required.

The deferred tax credit for the year was £0.88 million (see note 8) (2007 – charge of £2.60 million).

| **Deferred tax provision** | Group 2008 £000's | Group 2007 £000's |
|---|---|---|
| Corporation tax deferred by accelerated capital allowances | 9,662 | 7,938 |
| Interest capitalised and other timing differences | 8,404 | 11,015 |
| Total provision for deferred taxation | 18,066 | 18,953 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 20. Called up share capital

| **Authorised** | **2008 Number** | **2007 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 |

| **Allotted, issued and fully paid** | **£** | **£** |
|---|---|---|
| Subscriber Ordinary shares of £1 | 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 2007 and 31 May 2008 | 29,997 | 29,997 |

## 22. Other reserves

| | **Merger reserve** £000's |
|---|---|
| **Group** | |
| Balance at 1 June 2007 and 31 May 2008 | 26,699 |

## 23. Profit and loss account

| | **Group Profit and loss account** £000's | **Company Profit and loss account** £000's |
|---|---|---|
| Balance at 31 May 2007 | 76,616 | 103,867 |
| Profit / (loss) for the year | 25,726 | (1,483 ) |
| Balance at 31 May 2008 | 102,342 | 102,384 |

## 24. Reconciliation of movement in shareholders' funds

| | **2008** £000's | **2007** £000's |
|---|---|---|
| Profit for the year | 25,726 | 2,816 |
| Opening shareholders' funds | 133,374 | 130,558 |
| **Closing shareholders' funds** | 159,100 | 133,374 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 25. Notes to the consolidated cash flow statement

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

| | 2008<br>£000's | 2007<br>£000's |
|---|---|---|
| **Operating profit** | 26,733 | 23,376 |
| Amortisation of player registrations | 21,757 | 18,782 |
| Profit on disposal of tangible fixed assets | ( 19 ) | ( 1,036 ) |
| Depreciation | 11,555 | 9,698 |
| Increase in stock | ( 82,958 ) | ( 34,783 ) |
| (Increase)/decrease in debtors | ( 1,172 ) | 13,792 |
| Increase in creditors | 3,091 | 47,503 |
| **Net cash (outflow)/inflow from operating activities** | ( 21,013 ) | 77,332 |

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

| | 2008<br>£000's | 2007<br>£000's |
|---|---|---|
| Increase in cash for the period | 19,407 | 38,259 |
| Cash inflow from increase in debt | ( 67,186 ) | (31,542 ) |
| Change in net debt resulting from cash flows | ( 47,779 ) | 6,717 |
| Change in debt resulting from non cash changes | ( 2,097 ) | ( 12,770 ) |
| Net debt at start of year | ( 268,197 ) | ( 262,144 ) |
| Net debt at end of year | ( 318,073 ) | ( 268,197 ) |

Bank balances, included in net debt, of £307,000 (2007 - £239,000) are held in an employee benefit trust at the discretion of the trustees.

| (c) Analysis of changes in net debt | At 1 June 2007<br>£000's | Non cash changes<br>£000's | Cash flows<br>£000's | At 31 May 2008<br>£000's |
|---|---|---|---|---|
| Cash at bank and in hand | 73,857 | - | 19,407 | 93,264 |
| | 73,857 | - | 19,407 | 93,264 |
| Debt due within one year - (bank and other loans/bonds) | ( 5,964 ) | - | ( 136,871 ) | ( 142,835 ) |
| Debt due after more than one year - (bank loans/bonds) | ( 310,627 ) | (1,784 ) | 69,685 | ( 242,726 ) |
| Debt due after more than one year - (debentures) | ( 25,463 ) | ( 313 ) | - | ( 25,776 ) |
| Net debt | ( 268,197 ) | ( 2,097 ) | ( 47,779 ) | ( 318,073 ) |

Non cash changes represent £2,064,000 in respect of the amortisation of costs of raising finance, £313,000 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.

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

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

### (d) Gross cash flows

| | 2008<br>£000's | 2007<br>£000's |
|---|---|---|
| **Player registrations:** | | |
| Payments for purchase of players | ( 28,027 ) | ( 21,878 ) |
| Receipts from sale of players | 32,037 | 13,869 |
| | 4,010 | ( 8,009 ) |
| **Returns on investment and servicing of finance:** | | |
| Interest received | 4,131 | 2,389 |
| Finance charges paid | ( 23,786 ) | ( 26,992 ) |
| | ( 19,655 ) | ( 24,603 ) |
| **Capital expenditure:** | | |
| Payments to acquire tangible fixed assets | ( 6,963 ) | ( 38,985 ) |
| Receipts from sale of tangible fixed assets | 19 | 1,036 |
| | ( 6,944 ) | ( 37,949 ) |
| **Financing:** | | |
| Repayment of borrowings | ( 6,869 ) | ( 265,074 ) |
| Increase in short term borrowings | 74,877 | 309,579 |
| Costs of raising finance | ( 822 ) | ( 12,958 ) |
| Total debt financing | 67,186 | 31,547 |
| Debenture repayments | - | ( 5 ) |
| | 67,186 | 31,542 |

## 26. Leasing commitments

Commitments due under operating leases for the period to 31 May 2009 are in respect of:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Land and buildings<br>£000's | Other<br>£000's | Land and buildings<br>£000's | Other<br>£000's |
| **Leases expiring in:** | | | | |
| Within one year | - | - | - | 1 |
| Two to five years | - | 151 | 143 | 138 |
| Over five years | 625 | - | 608 | - |
| | 625 | 151 | 751 | 139 |

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 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 is £12.3 million (2007 - £9.4 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 £6.3 million (2007 - £7.7 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:-

| | 2008 Income/ (charge) £000's | 2007 Income/ (charge) £000's |
|---|---|---|
| Provision of office services | 124 | 107 |
| Merchandising and advertising sales | ( 587 ) | ( 751 ) |

At 31 May 2008 the balance owing from the Group to Arsenal Broadband Limited was £337,000 (2007 - £582,000).

# NOTES TO THE ACCOUNTS

For the year ended 31 May 2008

## 29. Pensions

a) *Defined contribution schemes*

Total contributions charged to the profit and loss account during the year amounted to £2,782,215 (2007 - £2,467,972).

b) *Defined benefit scheme*

| | 2008 | 2007 |
|---|---|---|
| | £000's | £000's |
| Provision at start of year | 705 | 834 |
| Payments in year | ( 129 ) | ( 129 ) |
| Provision at end of year | 576 | 705 |

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 2005 and indicated that the contribution required from the Group towards making good this deficit was £0.87 million at 1 April 2007 (the total deficit in the Scheme at this date was £8.8 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.

The agreed revised deficit is being paid off over a period of 10 years commencing May 2006. Payments for the year amounted to £128,916 and the profit and loss account charge was £24,000 (2007 - £84,000).

## 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 income resulting from these transfers, taking into account the applicable levies, is £1.5 million. These transfers will be accounted for in the year ending 31 May 2009.

# FIVE YEAR SUMMARY

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Profit and Loss Account** | £000's | £000's | £000's | £000's | £000's |
| **Group Turnover** | 156,887 | 138,395 | 137,237 | 200,843 | 222,970 |
| **Operating profit before player trading and exceptional costs** | 36,162 | 32,631 | 11,323 | 41,614 | 48,018 |
| Operating expenses - player registrations | ( 19,637 ) | ( 14,993 ) | ( 15,262 ) | ( 18,238 ) | ( 21,285 ) |
| Operating expenses - exceptional | ( 6,269 ) | - | - | - | - |
| **Operating profit /(loss)** | 10,256 | 17,638 | ( 3,939 ) | 23,376 | 26,733 |
| Share of results of joint venture | ( 67 ) | 204 | 499 | 435 | 469 |
| Profit on disposal of player registrations | 2,282 | 2,894 | 19,150 | 18,467 | 26,458 |
| Net interest - ordinary | ( 1,894 ) | ( 1,471 ) | 175 | ( 15,304 ) | ( 16,992 ) |
| Net interest - exceptional | - | - | - | ( 21,401 ) | - |
| **Profit before tax** | **10,577** | **19,265** | **15,885** | **5,573** | **36,668** |
| **Profit after tax** | **8,152** | **8,293** | **7,902** | **2,816** | **25,726** |
| **Earnings per share** | **£138.29** | **£138.91** | **£127.01** | **£45.26** | **£413.49** |
| **Earnings per share (excluding exceptional items)** | **£138.29** | **£138.91** | **£127.01** | **£286.05** | **£413.49** |
| **Balance Sheet** | | | | | |
| Tangible fixed assets | 209,615 | 314,822 | 451,501 | 455,376 | 449,923 |
| Intangible fixed assets | 34,989 | 28,983 | 66,555 | 64,671 | 55,665 |
| Net current assets / (liabilities) | ( 7,479 ) | 28,149 | (38,166) | 61,231 | ( 5,527 ) |
| Long term creditors and provisions | ( 152,762 ) | ( 249,298 ) | ( 349,332 ) | ( 447,904 ) | ( 340,961 ) |
| **Net assets** | **84,363** | **122,656** | **130,558** | **133,374** | **159,100** |
| Share capital | 59 | 62 | 62 | 62 | 62 |
| Share premium | - | 29,997 | 29,997 | 29,997 | 29,997 |
| Reserves | 84,304 | 92,597 | 100,499 | 103,315 | 129,041 |
| **Shareholders' funds** | **84,363** | **122,656** | **130,558** | **133,374** | **159,100** |
| **Net assets per share** | **£1,431.17** | **£1,971.45** | **£2,098.46** | **£2,143.69** | **£2,557.18** |

| | | | | | |
|---|---|---|---|---|---|
| **Playing record** | | | | | |
| FA Premier League | Champions | 2nd | 4th | 4th | 3rd |
| FA Challenge Cup | Semi-finalists | Winners | 4th round | 5th round | 5th round |
| Europe | Quarter finals Champions League | 1st K/O round Champions League | Finalist Champions League | 1st K/O round Champions League | Quarter finals Champions League |