



ARSENAL **HOLDINGS** PLC  
Statement of Accounts and Annual Report 2010/11

## ■ DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS



P.D. Hill-Wood



I.E. Gazidis



E.S. Kroenke



K.J. Friar OBE



Lord Harris of Peckham



Sir Chips Keswick

### MANAGER

A Wenger OBE

### SECRETARY

D Miles

### CHIEF FINANCIAL OFFICER

S W Wisely ACA

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## CLUB PARTNERS ■







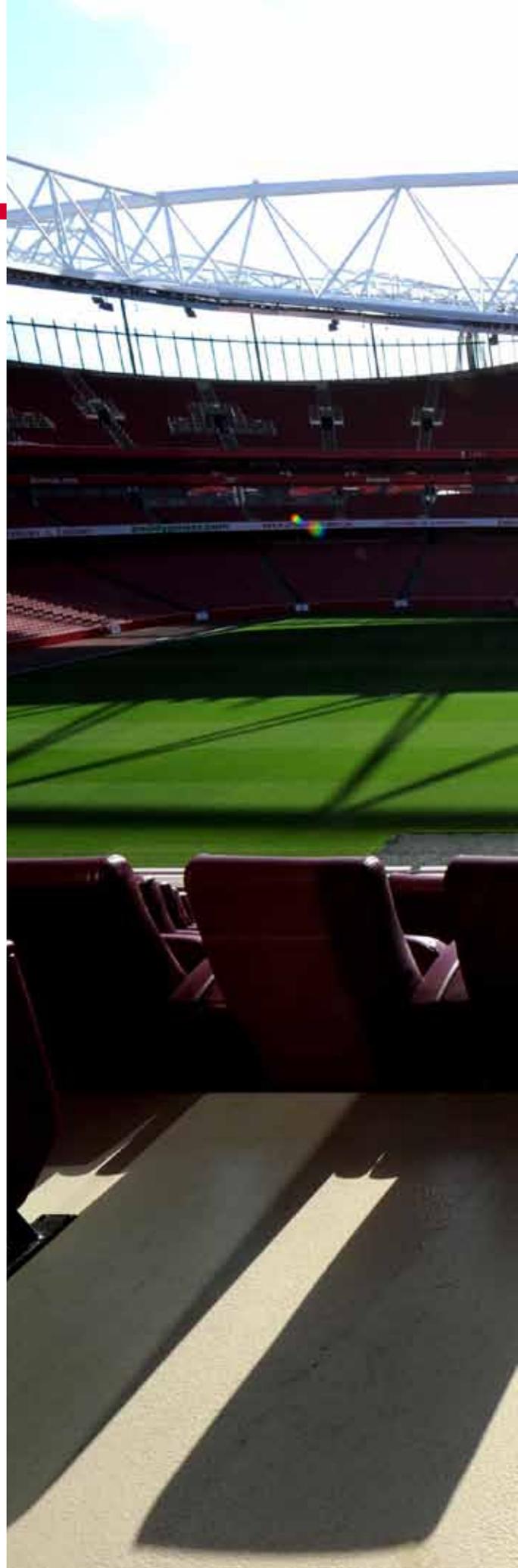
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# Financial Highlights

	2011 £m	2010 £m
<b>Revenue</b>		
Football	225.4	223.0
Property	<u>30.3</u>	<u>156.9</u>
<b>Group</b>	<u>255.7</u>	<u>379.9</u>
<b>Wage Costs</b>	<u>124.4</u>	<u>110.7</u>
<b>Operating Profit</b> (excluding player trading, exceptional items and depreciation)		
Football	45.8	56.8
Property	<u>4.7</u>	<u>15.2</u>
<b>Group</b>	<u>50.5</u>	<u>72.0</u>
<b>Profit on player sales</b>	<u>6.3</u>	<u>38.1</u>
<b>Group profit before tax</b>	<u>14.8</u>	<u>56.0</u>
<b>Financing</b>		
Cash	160.2	127.6
Debt	<u>(258.0)</u>	<u>(263.2)</u>
<b>Net Debt</b>	<u>(97.8)</u>	<u>(135.6)</u>





# Chairman's Report

I am pleased to open my report to shareholders by confirming that a strong financial performance across the second half of the year means that the Group has delivered another profitable set of full year results. Strong financial performance is not an end in itself, but creates the platform from which the Club can build and sustain the on-field success which is always its main objective.

On the pitch, the year has featured a number of competitive highs and lows, whilst off the field the sad passing of our dear colleague Danny Fiszman has heralded a time of change.

The team played some fantastic, entertaining football and mounted a strong challenge on four competitive fronts. We saw the emergence of a terrific new home-grown talent in the shape of Jack Wilshere and young goalkeeper Wojciech Szczesny grabbed his chance to excel in the latter stages of the campaign. Although we were always battling against injuries to key players such as Cesc Fabregas, Thomas Vermaelen and Robin van Persie, some of our displays were memorable. My personal highlight was the inspirational clash with Barcelona in a packed Emirates Stadium. Although we went on to lose that Round of 16 tie, the first leg victory was a spectacular evening and one of the best games many of us have ever seen.

Defeat by Barcelona in the second leg triggered a challenging spell with the frustration of defeat in the dying moments of the Carling Cup Final against Birmingham City followed by our FA Cup Sixth Round exit at the hands of Manchester United. Despite those setbacks, we continued to compete in the race for the Barclays Premier League title right up to the closing games. Ultimately, a fourth placed finish felt less than our performances deserved but it was still notable for the fact it gave us a route to the UEFA Champions League for a remarkable 14th season in succession. This is a record of which we are justly very proud.

I would like to pay tribute, once again, to the Arsenal Ladies as they collected the FA Women's Cup for the 11th time, the FA WSL Continental Cup, and were the inaugural winners of the Women's Super League.

We continue to run the Club effectively, in a way which will be sustainable over the long-term, and, as you will read in the following pages, we have had a robust financial performance, reporting a profit before tax for the year of £14.8 million. This is lower than last year which was, in light of reduced incomes from player sales and from our property business, entirely to be expected.

The landscape at the top of the game remains fiercely competitive. As such the Group's future revenue growth is vital as we aim to drive

“THE TEAM PLAYED SOME FANTASTIC, ENTERTAINING FOOTBALL”

increased investment into the team and hence provide the best opportunity for success on the field. With that imperative in mind we have continued our programme of building our head office capabilities – putting in place a top quality management and staff resource to drive long-term future

commercial success. We are beginning to see the first returns from this investment in the form of a successful Asia pre-season tour and a number of valuable new sponsorships and renewals. This is an ongoing process, but the early results are very encouraging and give us reason to look forward with confidence.

Another feature of the year was our partnership with Centrepoint, the charity which helps homeless young people. Through the 'Be a Gooner. Be a Giver.' campaign, the partnership raised more than £600,000. This exceeded the target set at the start of the year, to fund the refurbishment of one of Centrepoint's facilities in Soho, and I'd like to congratulate everyone involved on a terrific effort.

This year our Arsenal community suffered a profound loss with the death of our dear friend, fellow director, fan and inspiration Danny



# Chairman's Report

Fizman. Danny was much loved by those who knew him, not just for his extraordinary vision and commitment driving Arsenal forward but because he was a respectful gentleman with a deep passion for the Club. We miss him deeply but his legacy will live with us forever in the shape of Emirates Stadium. I was honoured to unveil the Danny Fiszman Bridge in acknowledgement of his outstanding contribution to the Club. On the same day I was also privileged to unveil the Ken Friar Bridge. Ken's contribution to this Club is unsurpassed. For the past 62 years, from the age of 12, he has worked tirelessly for the good of Arsenal and it was entirely appropriate that he should be formally recognised alongside Danny.

Both Danny and Ken embody Arsenal's spirit of innovation and forward thinking and Danny's passing heralded change for the Club and the start of a new era. Danny had agreed for his estate executors to sell his shares in the Club to Stan Kroenke. This prompted a wider offer from Mr Kroenke's organisation, KSE UK Inc., which both I and my fellow board directors agreed to accept for our own holdings in the Club and to recommend to shareholders generally. This decision arose from no other desire than to protect the long-term interests of the football club we support and love. Following the offer KSE UK Inc. holds a controlling interest of 66.8% of the share capital of Arsenal Holdings plc. We have all grown to know Stan well during his three years as a fellow board member and we are confident he is the appropriate custodian to support the Club through the next stage of its evolution.

That evolution will be built on the foundations that have been created over the 125 years of the Club's history. This year we will be celebrating those enlightened individuals working at the Woolwich Arsenal who broke ranks to set up a football team to break the monotony of their daily lives. Back in December 1886 founder David Danskin had a vision to create a community around football, to give people a sense of purpose, fun and belonging. That vision has

been the foundation of everything that has been achieved since. It is important that we mark this 125 year milestone, important that we pay tribute to our founding fathers and important that we recognise Arsenal Football Club will always be capable of bringing people together around a common cause.

Ultimately Arsenal Football Club is here for our fans. Once again, we had a full stadium for all of the Club's home fixtures last season and we have a passionate away support which I believe is second to none. I would like to thank those fans and indeed our fans from all around the world for their fantastic ongoing support. I also thank my fellow directors, our management team and entire staff for all their hard work and dedication over the last year. I also fully recognise and appreciate the support from our sponsors and commercial partners.

I look forward to welcoming you all again to Emirates Stadium over the course of this, our 125th season. ■



**P D Hill-Wood**  
**Chairman**

30 September 2011



# Chief Executive's Report



## Overview

As we enter our 125th year it makes sense to reflect on what has been achieved by our great football club and to look forward to what comes next.

Arsenal Football Club was born out of one man's vision to help his work colleagues break free from the daily grind of life in the Woolwich Armoury. David Danskin had an ambition to build a community of people with a kindred spirit and aim, namely playing football, having fun and being together. December 1st 1886 was the date. The Royal Oak public house in Woolwich was the venue.

Mr Danskin could never have dreamed that Arsenal Football Club would achieve the fame and global reach it has today, but his original sense of community remains very much part of the Arsenal way. There are other common themes which have also carried through to the present day, notably a refusal to stand still and a desire for the Club to represent all that is the very best in the game.

Our desire to drive the Club forward is critical in the current competitive landscape of European football. Other clubs are growing rapidly, expanding their international reach and fan base and using the revenues generated, or other resources, to enhance performance on the field. It has been said before but is worth repeating – standing still is not an option for Arsenal.

Our primary objective will always be success on the field. To give the Club the best opportunity to achieve this, we must drive a virtuous circle of increased revenue, increased investment in the team and a larger engaged fan base and we must do this in a way which is self-sustaining and protects the long-term future of the Club. That has been my mission since joining the Club and we are making good progress.

## On the Pitch

The 2010/11 season was one of considerable extremes. The team played some fantastic

attacking football and mounted a serious challenge in all four competitions but ultimately we fell short of winning a trophy.

The Chairman has referred to the victory over Barcelona in his report and I am sure that was a highlight for many of our supporters, as it was for me. The performance on the pitch coupled with the atmosphere in the stands and the hard work behind the scenes made it a night which the Club can reflect on with considerable pride.

That high was followed by the pain of second leg defeat in the Camp Nou and an FA Cup Sixth Round exit at the hands of Manchester United. In the Carling Cup we reached a Wembley final for the first time in 13 seasons but fate was against us as we went down to a late winner against Birmingham City.

“OUR PRIMARY OBJECTIVE WILL ALWAYS BE SUCCESS ON THE FIELD”

In the Barclays Premier League we remained in the running for the title right up to the closing weeks of the season. Ultimately, we finished fourth, securing UEFA Champions League entry for the 14th season in succession, a remarkable feat in an increasingly competitive environment.

The Arsenal Ladies enjoyed another hugely successful season, lifting the Women's FA Cup for the 11th time and then going on to win the first ever Women's Super League. A 3-1 victory over Liverpool in the final game gave them the Super League title. They completed a treble by beating Birmingham City to collect the FA WSL Continental Cup. This is a fantastic achievement and one that ensures Arsenal Ladies remain the pre-eminent force in the women's game here in the UK.

More details of our playing record can be found on page 23.

The new season started with the Emirates Cup, which was again a resounding success, with 115,000 fans enjoying four games across an entertaining weekend. It was a pleasure to see Thierry Henry, a true Arsenal legend, back on the Emirates Stadium turf as his New York Red Bulls

# Chief Executive's Report

side lifted the trophy.

During a very busy summer transfer window we have added some significant talent to the squad in the shape of Mikel Arteta, Yossi Benayoun (season loan), Gervinho, Carl Jenkinson, Per Mertesacker, Ryo Miyaichi, Alex Oxlade-Chamberlain, Ju Young Park and Andre Santos. In addition, we now have Aaron Ramsey back available for selection after his long-term injury and we have seen Emmanuel Frimpong become the latest youngster to make the transition from our youth programme into first team reckoning.

At the same time we have said goodbye to Cesc Fabregas, Samir Nasri, Gael Clichy and Emmanuel Eboue. We thank them for their contributions to Arsenal and wish them well with their new Clubs.

As I write, the new season is entering its second month. There is no doubt that we have had a tough start to the 2011/12 campaign but we have won through an awkward UEFA Champions League qualifier, against Udinese, and we remain confident in the quality within the squad and of our prospects for the rest of the season.

## Business Update

Once again the financial results for the year, which are covered in more detail in the Financial Review section, are sound. Whilst profits are lower than last year, due to a reduced level of exceptional gains from player sales and from our property business, this was expected. We continue to be in excellent shape financially and well set for future growth.

It is important to remember our business goal is to increase revenues for ongoing investment in the team and across the Club. We have a clearly defined plan to take the Club forward and I am pleased with the progress we are making.

The capability of our staff will be vital to the successful delivery of our commercial plans and, accordingly, we have continued to recruit expert

staff in the areas of Information Technology, Partnerships, Human Resources, Marketing, Retail, Hospitality and Communications. Our investment in new head office staff across the last two years has not been made lightly but with a clear objective of delivering a sustained period of business growth. I am pleased to confirm that, although we are only in the early stages of our plan to drive commercial revenue growth, we are already generating incremental commercial revenues which exceed our investment made in new staff.

During the year we completed the biggest research study ever conducted by the Club. We examined and talked in detail to our various categories of fan and analysed their Arsenal experience, what they love about the Club and where they think we can improve. This

comprehensive and valuable research will inform our thinking as we move forward and it is already coming to life through changes in the way we interact with our fans day to day, the experience we create at the Emirates Stadium and how we operate as an organisation.

Underpinning our thinking is the recognition that Arsenal Football Club is about making people proud to be part of the Arsenal community. Whether he or she is the fan who travels around the world to watch every game, or the fan who cheers us on from a settee in London or a bar in Singapore, or the member of staff who works for the Club day to day, our aim must be to make them feel proud to be a part of our club.

That pride is clearly driven to a significant extent by results and performances on the pitch but it is about more than only this. It is about the way we run the Club day to day, it is about our contribution to communities around the world, it is about the way we treat people, it is about the memories we create. We must strive to represent our fans in the way they would wish to be represented and to reflect their highest aspirations of what their Club should be. I believe

“WE CONTINUE TO BE IN EXCELLENT SHAPE FINANCIALLY”



# Chief Executive's Report



our fans are proud of the fact that Arsenal's successes are achieved in a responsible and sustainable way, a way that other clubs around the world seek to emulate, and a way that is good for the game of football.

## Partnerships

One of the areas where our investment in people has begun to generate growth is in the area of commercial partnerships. Historically, like most football clubs, we have created value by selling to partners what was effectively advertising space in varying shapes and forms. Partners today, however, are increasingly focused on creating value in their sponsorships and this requires Arsenal to have a much deeper understanding of a partner's business objectives and clear proposals for how we can work closely with them to help them achieve their objectives. This progressive approach has attracted the likes of Italian white goods manufacturer Indesit, who have signed a three year agreement with us. In addition, Citroën has renewed its partnership at an increased value and we have also signed contracts in recent months with Carlsberg, Thomas Cook and on-line gambling firm Bettson.

Our two main sponsorship relationships – Nike and Emirates – helped to secure the move to the Emirates Stadium and remain contracted through to 2014. We have developed an excellent relationship with both partners and have worked very closely with them over the years. There is important work that we can and are doing now with Nike and Emirates to ensure that we can continue to maximise the value of those relationships when these sponsorships come up for renewal.

Another important area of focus is the development of our broadcast programming and content development. This is a key component of our drive to build on our engagement with fans around the world. We have continued to invest in

our website, our media production capability and our partnership with MP&Silva, a leading international sports media company that manages and distributes television and media rights around the world, is developing well. Arsenal programmes are now being broadcast in 88 territories around the world, reaching an estimated 110 million households. This is in addition to the extensive exposure we receive through global broadcasts of the Barclays Premier League.

## Membership

Building our Club membership is another key area as we move forwards. We have now included the re-branded Arsenal Player, our in-house television programme, into the package of benefits offered to our 200,000 paying Arsenal

members. This package also includes increased access to match day tickets - in the coming season twice as many tickets will be open to Red Members compared to previous years.

In addition we have developed a highly successful Junior Gunners road-show, which has toured

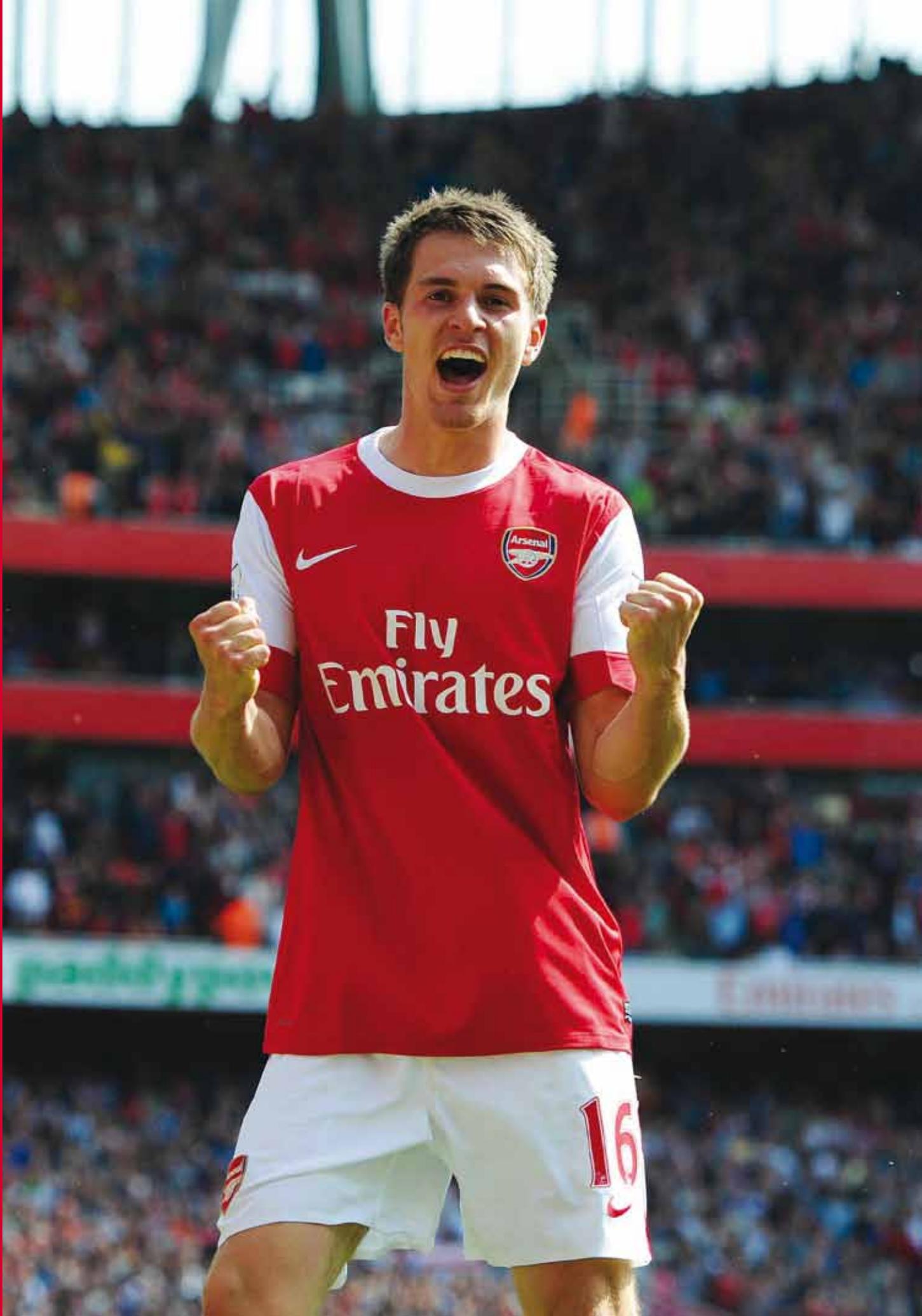
southern England during the summer, giving thousands of young supporters a behind the scenes glimpse of life at Arsenal.

## Asia Tour

This summer the Club made its first long distance pre-season tour in twelve years, travelling to Malaysia and China. This was an important development as we look to build our fan base around the world and to deliver value to our commercial partners. The tour was a great success and a remarkable experience for everyone involved. Our fans in Asia showed unbridled passion and love for Arsenal whilst displaying in-depth knowledge of the players and Club.

We played in front of 65,000 fans in Kuala Lumpur against a Malaysia XI, winning 4-0 and followed that with a 1-1 draw against Hangzhou ▶

“THE ASIA TOUR WAS A GREAT SUCCESS”



# Chief Executive's Report



Greentown in China. The games were useful in terms of early preparation for the season ahead but, more significantly, I am confident that the tour helped us create a platform for future development in Asia. The fact more than 2.5 million people joined a web chat involving Bacary Sagna and Tomas Rosicky and that we had more than 270,000 fans register for our website in China in less than a month underlines the opportunity which we have in this part of the world.

## **Stadium Development**

We have completed a second year of work designed to improve the experience fans have when they visit Emirates Stadium. This is an ongoing programme, which we are developing in consultation with our supporters, and over the last year:

- we have dedicated the two bridges leading to the stadium to Danny Fiszman and Ken Friar;
- we have developed a series of fan tributes to star players, past and present, which now adorn the lower surrounds of the stadium;
- we are flying flags in tribute to key fans and Club figures;
- we have continued our development of the Club Tier with the introduction of the new 49ers bar; and
- we have created new “super-boxes” to meet the needs of some of our corporate supporters.

There are more plans in the works for some iconic additions to the stadium surrounds which will be unveiled later this season to mark our 125th anniversary.

The feedback from fans has been strong and positive and we will continue to look for more ways to keep our magnificent home at the forefront of modern stadia thinking as we move forward.

## **Community Activities**

Our Charity of the Season was Centrepunt and through the ‘Be a Gooner. Be a Giver.’ campaign, we raised over £600,000. This was a magnificent achievement and my thanks go to everyone who offered their support.

The Club continues to place great importance on its work in the community by offering and supporting a variety of innovative social inclusion, education and sport programmes around Islington and beyond. I am delighted to report that this community work has again been formally recognised with:

- three National Kickz Awards 2010;
- the Elthorne Park Cruyff Court winning the Mayor of London’s Safer Parks Gold Award; and
- the Double Club education scheme acknowledged for “Outstanding Commitment as Business Language Champions”.

I’d like to congratulate everyone involved in those particular projects and our community team in



# Chief Executive's Report

general for another year of outstanding work.

During the year ahead the Club will be partnering with Save the Children. We will support the charity on a range of education projects designed to help the poorest children, both in the UK and overseas, get a better start in life. We look forward to a successful programme of activity.

More detail of our community work can be found on page 30.

## Prospects

Once again, we have started the new season with general admission and Club Tier season tickets fully subscribed. In addition and encouragingly, we have begun to see the early stages of growth in our commercial revenues from the Asia Tour, from sponsors and from our retail business.

During the close season we have again committed funds to the improvement of our stadium facilities and the training ground facilities at London Colney.

The summer months have seen a period of intense activity in the transfer market. Clearly that activity will be judged by results on the field but it also needs to be considered in terms of both the transfer fees paid and received and the movement in contracted wage commitments. Overall we have made a significant net investment in the development of the playing squad. We continue to

invest in outstanding young players as part of our core strategy but we have also added players of considerable experience in this transfer window. This mix of youth and experience is powerful and we have always invested in players with the quality which Arsène Wenger believes can help take the team forward. We are confident that we have a squad that can and will meet the challenges of what is sure to be an exciting and very competitive season domestically and in Europe.

Off the field, our goals for the organisation are clear and unchanged:

- to support and fund on field success; and
- to enhance the fan experience.

We are making progress on all fronts and the Club starts its 125th year in a strong position.

Arsenal Football Club strives to strike the right balance between short-term objectives and long-term success. We continue to work hard to get that balance right each day as we aim to take the Club forward and make everyone proud to be part of the Arsenal family. ■



**I E Gazidis**  
**Chief Executive Officer**

30 September 2011



# Financial Review

At this time last year the Group reported record financial results for the 2009/10 year. Those results were driven by the inclusion of two particular one-off items - significant profits from player sales and a peak in the property trading activity at Highbury Square - and the 2010/11 results are, inevitably, at a lower level.

Strong financial performance in the second half of 2010/11 means that the losses reported for the first half of the financial year have been converted into a full year pre-tax profit of £14.8 million. This was a result of both the football and property business segments delivering positive contributions.

	2011 £m	2010 £m
<b>Group turnover</b>	255.7	379.9
<b>Operating profit before depreciation, player trading and exceptional items</b>	50.5	72.0
Exceptional items	4.8	-
Depreciation	(12.5)	(11.9)
Player trading	(14.6)	13.6
Joint venture	0.8	0.5
Net finance charges	(14.2)	(18.2)
<b>Profit before tax</b>	<b>14.8</b>	<b>56.0</b>

During the year under review the amortisation of player registrations was only partially offset by profits on the sale of player registrations, the main contribution to which was from the sale of Eduardo. As a consequence, there was a net loss on player trading of £14.6 million (2010 - net profit of £13.6 million).

Net finance charges have been reduced to £14.2 million (2010 - £18.2 million). The lower cost reflects the fact that our property business was debt free throughout 2010/11 and, therefore, represents the fixed cost of our stadium finance bonds net of the interest earned on our bank deposits. Having paid off its bank loans during the prior year, our property business has continued to be strongly cash generative. As a consequence, at the balance sheet date, the Group's cash and

bank balances amounted to £160.2 million (2010 - £127.6 million) and the Group's overall net debt was £97.8 million (2010 - £135.6 million).

## Football Segment

	2011 £m	2010 £m
<b>Turnover</b>	<b>225.4</b>	<b>222.9</b>
<b>Operating profit before depreciation, player trading and exceptional items</b>	<b>45.8</b>	<b>56.8</b>
Player trading	(14.6)	13.6
<b>Profit before tax</b>	<b>2.2</b>	<b>44.8</b>

There were 28 home fixtures (19 Barclays Premier League, four UEFA Champions League, three e.on FA Cup and two Carling Cup). This was one more game than in the prior year but the mix of games was less favourable with two less games played in the Champions League. As a result, match day revenue was slightly lower at £93.1 million (2010 - £93.9 million). The average ticket sales per game was 59,849 (2010 - 59,765).

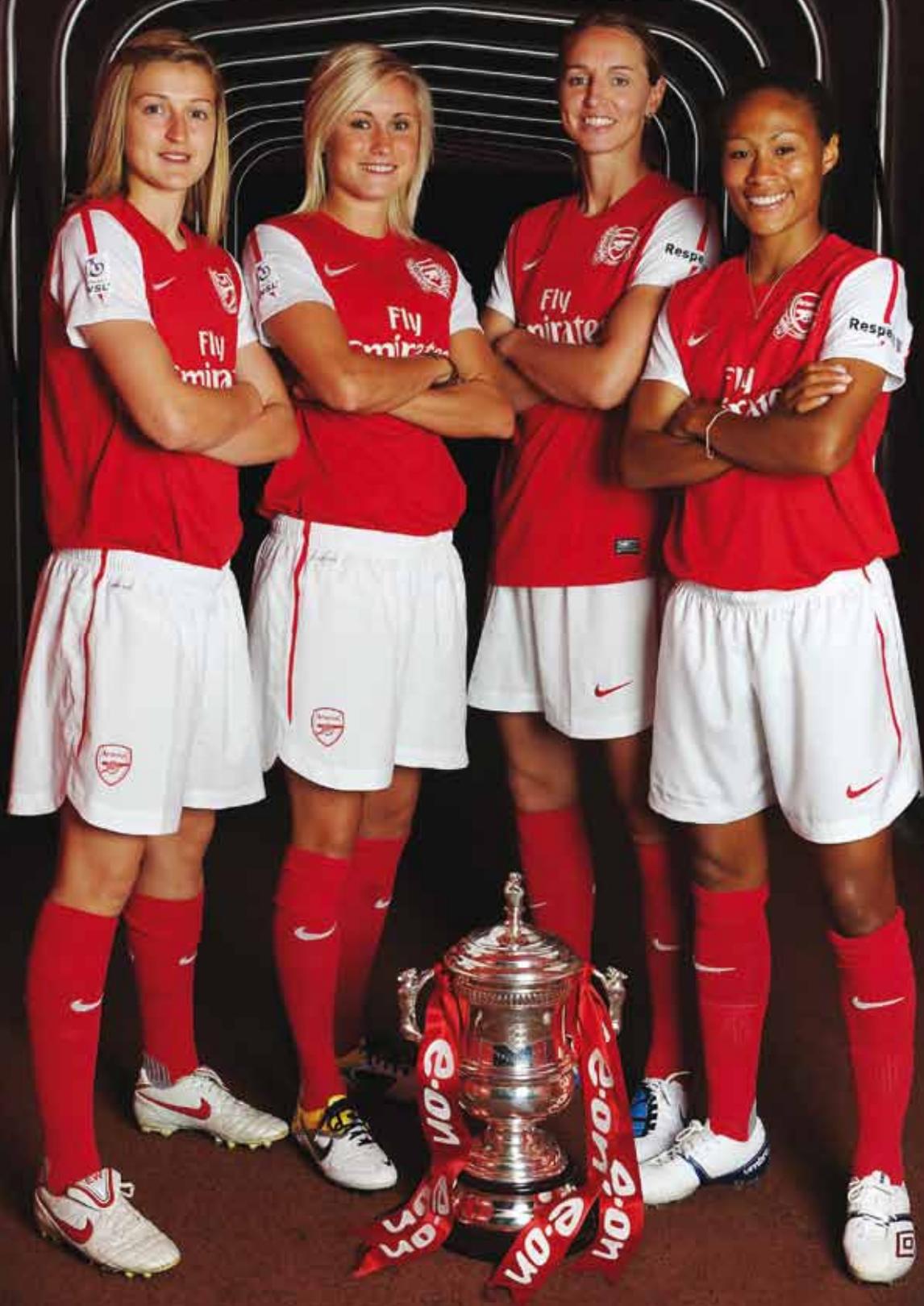
Broadcasting revenues were also little changed overall at £85.2 million (2010 - £84.6 million) with the earlier exit from the Champions League compensated by the media revenues associated with our FA Cup and Carling Cup campaigns and a better £:€ exchange rate on converting Champions League distributions from UEFA.

Combined retail and commercial revenues were slightly increased at £46.3 million (2010 - £43.9 million) reflecting some positive early returns on initiatives implemented by the new management teams in these areas.

We have indicated in previous reports the continuing upward pressure on player wage costs and, in addition, we have continued to invest in developing the commercial and support staff to deliver significant revenue growth for the Club over the next few years. These factors combined to produce a full year wage cost of £124.4 million (2010 - £110.7 million) which represented 55.2% of our football revenues (2010 - 49.7%). ▶







Our investment in player wages, which means not just a significant current cost but also represents a high level of committed future cost, is underwritten by our accumulated property profits and cash reserves.

Other operating costs, which include all the direct and indirect costs and overheads associated with the Club's football operations and revenues, fell slightly to £54.5 million (£55.0 million).

**Property Segment**

	2011	2010
	£m	£m
Turnover	30.3	156.9
Operating profit before exceptional items	4.7	15.2
Reversal of impairment provision	7.9	-
Profit before tax	12.6	11.2

Turnover from property was derived from the continuing sale of flats in the Highbury Square development. Sales progress has been steady as we have sought to achieve value rather than sell off the remaining flats at the fastest possible rate. 69 flats were sold during the period bringing the cumulative sales up to 639 of 655 market housing apartments within the development.

We have commenced construction and refurbishment works on a small number of properties owned by the Group in the roads immediately adjacent to Highbury Square and this project will deliver some 21 additional property units for sale from spring 2012.

Visitors to Emirates Stadium will be aware of the extensive construction works ongoing to the south at Queensland Road. These works are being undertaken by Newlon Housing Trust following our sale of part of the site to them in February 2010. The area of the site to the north east and adjacent to the stadium podium is now being cleared and remediated in readiness for completion of the sale contract, exchanged with Barratt in June 2011, for three towers of market residential

accommodation. Although the revenues and costs associated with the Barratt contract will not be recognised in the profit and loss account until legal completion occurs, likely to be in summer 2012, the value of the contract means that part of the impairment provision previously booked against the site can be released and £7.9 million has been credited in the current year results in this respect.

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

**Profit after Tax**

The tax charge for the year was £2.1 million (2010 - credit of £5.0 million). The effective rate of taxation of 14.5% benefits from the revaluation of the Group's deferred tax liabilities to the 26% rate of corporation tax effective from April 2011.

The retained profit for the year was £12.6 million (2010 - £61.0 million).

**Emirates Stadium**

During the year we continued to invest in our stadium and player facilities. Expenditure of £9.6 million on fixed assets included the major redevelopment of the dining and hospitality facilities within one quadrant of Club Tier, further Arsenalisation initiatives throughout the stadium including the return of the Clock End and the construction of a state of the art medical and rehabilitation centre at the first team's training ground at London Colney.

**Risks and Uncertainties**

There are a number of potential risks and uncertainties, including the maintenance of playing success and the recruitment of key employees (including playing and coaching staff), which could have a material impact on the Group's long-term performance. These risks are monitored by the Board on a regular basis. ▶



# Financial Review

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

The Club is regulated by the rules of the FA, Premier League, UEFA and FIFA. Any change to FA, Premier League, UEFA and FIFA regulations in future could have an impact on the Group as the regulations cover areas such as: the format of competitions, 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.

## **Financial Risk Management**

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

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

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

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

Where income from 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.

## **Financial Fair Play**

The 2011/12 financial year will be the first to be included in the break even monitoring arrangements being introduced as part of UEFA's Financial Fair Play initiative.

At the core of these new regulations is a requirement for clubs to balance revenues and costs and to operate their football businesses on a self sustaining basis. This has consistently been our approach and, accordingly, the Club is well placed to comply with UEFA's new regime. ■



**Stuart Wisely**  
**Chief Financial Officer**

30 September 2011





Arsenal

FORWARD



Season Review

The first-team produced a sustained challenge for the Barclays Premier League title throughout the season, only falling away in the final weeks of the campaign.

A strong start saw Theo Walcott score a hat-trick as Blackpool were beaten 6-0 in the first Premier League home match – a scoreline that was replicated in the opening UEFA Champions League fixture at home against SC Braga. Big wins against Bolton Wanderers and away at Tottenham Hotspur (both by 4-1, the latter in the Carling Cup) added to the confident early mood.

Impressive performances by new signings Marouane Chamakh and Laurent Koscielny were a feature of the season's early months – striker Chamakh scoring ten times before the end of 2010. Minor setbacks in October and November were offset by a fine run of results around the turn of the year, which included a memorable 3-1 win over Chelsea at Emirates Stadium two days after Christmas.

A hectic January saw progress to the Carling Cup Final, secured through a 3-1 aggregate win over Ipswich Town, and a place in the fifth round of the FA Cup sealed after replays against Leeds United and Huddersfield Town respectively.

Steady progress continued in the Premier League, in what was developing into a two-horse race with Manchester United. February saw a dramatic win over Everton followed by a setback at Newcastle United, where the Gunners were four goals up before being pegged back to 4-4. Three weeks later at Wembley, a last-minute goal by Birmingham City resulted in a disappointing defeat in the Carling Cup Final.

The team's UEFA Champions League campaign ended in the round of 16, against eventual winners Barcelona, but not before a superb 2-1

win in the first leg at Emirates Stadium – in which excellent Robin van Persie and Andrey Arshavin goals won the match late on. In the Camp Nou, a 3-1 win for Barcelona proved decisive – although the game turned on a controversial red card for Robin van Persie with the scores level at 1-1 on the night.

FA Cup progress had continued against Leyton Orient, but ended with a 2-0 defeat to Manchester United at Old Trafford in the sixth round. This meant that the Premier League was the sole focus of the season's final two months. Despite a good 3-1 win at Blackpool and an excellent 1-0 home win over Manchester United, a series of draws and defeats meant that the side finished fourth in the Premier League. This ensured the side was in position to qualify for a Champions League place for a 14th consecutive season through the qualifying round.

Robin van Persie was the Club's top scorer with 22 goals from just 33 appearances, all the more remarkable given that he missed a large chunk of the first half of the season through injury. There were also impressive goal returns from Samir Nasri (15) and Theo Walcott (13). Cesc Fabregas topped the assists chart with 18 whilst Andrey Arshavin set up 17 goals.

Midfielder Jack Wilshere emerged from the youth ranks to enjoy a remarkable first full season whilst young goalkeeper Wojciech Szczesny enjoyed an excellent spell in the closing stages of the campaign. In addition, midfielder Aaron Ramsey returned from a serious leg injury to put in some highly promising performances at the back end of the season. The other end of the age scale saw the welcome return of an old friend - Jens Lehmann re-signed for the Club during the Spring, as goalkeeping cover, and made his ▶

TOP SCORER  
ROBIN VAN PERSIE **22** GOALS SCORED



# Season Review

200th appearance when called into the side for the match at Blackpool.

The reserve team, managed by Neil Banfield, once more proved its worth in providing a vital bridge between Under-18 and senior football.

The side performed exceptionally in finishing second in the Reserve League South, just one point behind Chelsea, playing entertaining football and showcasing the best of Arsenal's young talent.

Notable performances came from the likes of Jay Emmanuel-Thomas, who top-scored with ten goals, and Chuks Aneke, whilst captain Ignasi Miquel was rewarded for his efforts with first-team appearances in the FA Cup against Leyton Orient. The reserve side also helps first-team players back into competitive action after injury. That proved to be the case when long-term absentee Thomas Vermaelen played in the goalless draw against Manchester United. The return of Jens Lehmann also meant that, for two matches, Arsenal's young players could benefit from his experience in goal.

The under-18s, run by Steve Bould, had a mixed season in terms of results but again showcased a number of young prospects being schooled to play in Arsenal's intricate and fast flowing style.

Although there was to be no retention of the FA Premier Academy League title, and defeat to Chelsea meant a relatively early exit from the FA Youth Cup, the team was never short of firepower. Josh Rees and Alban Bunjaku scored nine goals apiece, whilst striker Zak Ansah managed five goals in nine games despite suffering from injury.

One of the season's highlights was a trip to the US during the spring, by what was officially an Under-19 team, for the Dallas Cup. There, the team scored freely in the group stages before being edged out in the semi-finals by strong German opponents Eintracht Frankfurt.

Arsenal Ladies saw a significant change in routine last season, with their admission to the new Women's Super League, which commenced in March, and meant a stop-start first half of 2010/11. Managed by Laura Harvey, the team kept busy with a demanding Champions League campaign that ended in April, at the semi-final stage, at the hands of French outfit Lyon. Their FA Cup campaign culminated in a wonderful 2-0 win over Bristol Academy in the final, held at Coventry City's Ricoh Arena. Scottish duo Kim Little and Julie Fleeting scored the goals. It meant that the Gunners have now won the trophy 11 times in the past 18 seasons.

The eight-team Super League looked a tighter competition than the old Premier League and the team started strongly, beating Chelsea 1-0 with a Gilly Flaherty goal in the league's first ever match, played in front of the television cameras. The campaign was interrupted by the Women's World Cup – at which four Arsenal Ladies players represented England – but the Gunners maintained their momentum throughout, ultimately lifting the inaugural Super League title with a 3-1 victory at Liverpool in the last game of the season. At the time of writing the Ladies have just collected a third trophy by winning the FA WSL Continental Cup. ■



**CONSECUTIVE  
CHAMPIONS LEAGUE  
APPEARANCES**

**14 SEASONS**









# Charity

During the 2010/11 season Arsenal enjoyed a partnership with Centrepoint - the charity which helps homeless young people to have a better future. Every day Centrepoint provides accommodation and support for 800 vulnerable homeless young people between 16-25 years-old across London who have experienced domestic abuse, family breakdown, poverty and, increasingly, the harsh reality of knife and gun culture.

Centrepoint services are located across London and range from emergency night shelters, to short stay services, to long-term supported flats and centres with facilities for learning on site. These facilities are places which homeless young people can call "home" and Centrepoint provides over 290,000 nights of accommodation to homeless young people every year. However, some of their buildings are in drastic need of redevelopment – they need refurbishing, expanding, modernising and a fresh lick of paint.

Through the 'Be a Gooner. Be a Giver.' campaign, the partnership raised over £600,000, exceeding the target set to fund the refurbishment of a state-of-the art facility in London's Soho to provide a space where young homeless people



can go to learn essential life skills to get them back on their feet. The refurbished building will provide a welcoming and inspiring place for young homeless people to go to receive support, education and employment training. It will also provide opportunities to learn the skills that are essential in helping youngsters to lead healthy lives and reach their potential.

The launch of the partnership took place in August 2010 when Thomas Vermaelen and Bacary Sagna visited the Soho facility which would be refurbished by the funds raised through the partnership and met a number of young people who were benefiting from Centrepoint's work.

Arsenal's match against Fulham on 4th December 2010 was dedicated to Centrepoint. Arsenal's first team and directors donated a day's wages to the Charity while the Club's other staff and supporters were encouraged to donate what they could too. 19 year-old Kareem Leigh, who had once played against Jack Wilshere in the West Ham academy and who has been supported by Centrepoint, delivered the match ball to the officials to help kick-off this special match day.

The Club's automotive partner, Citroen were



# Charity

also involved in the initiative and an exciting collaboration of Arsenal players and artist Ian Cook created a unique piece of artwork using radio controlled cars. The finished piece, depicting an Arsenal players' goal celebration, was auctioned at the Club's Annual Charity Ball raising £4,000.

In March, the Club staged another successful 'Be a Gunner. Be a Runner.' event with Club staff joining 600 runners at Emirates Stadium to run ten laps around Arsenal's home.

The Annual Charity Ball was the grand finale to the partnership. This prestigious event, headlined by Eliza Doolittle and Bryan Ferry, was attended by the manager and the first team squad. The final tally from the night amounted to more than £300,000 raised for Centrepunt and the Arsenal Charitable Trust.

Speaking about the partnership, Ivan Gazidis said: "The Club is incredibly proud of not just exceeding the fundraising target and leaving a legacy which will help young homeless people, but more importantly the way in which a great number of supporters, staff and members of the Arsenal community engaged and supported the partnership in so many ways. Arsenal is renowned

for giving young people a chance and this partnership reflected that spirit. We'd like to thank all our supporters for participating and contributing so generously throughout the season."

Seyi Obakin, Chief Executive of Centrepunt added: "We were delighted to partner with Arsenal Football Club as their dedicated Charity of the Season. With the generous support of the Club and its supporters, we were able to reach out to more young people and provide improved services to help them fulfil their potential and give them every chance of a brighter future, something that Centrepunt has been committed to for the last 40 years."

At the start of the 2011/12 Season Arsenal Football Club announced it will work alongside Save the Children, as its first ever global charity partner.

Arsenal will support the charity on a range of education projects in the UK and overseas, to help the poorest children get a better start in life and give them the chance to grow and fulfil their potential. Through this work, the Club will help Save the Children towards its vision of transforming the lives of over three million children a year through education by 2013. ■



# Community

Arsenal in the Community goes from strength to strength making a meaningful difference to the lives of young people and helping communities to thrive. The Club continues to offer a variety of innovative social inclusion, education, health and sport programmes providing young people with an opportunity to help them reach their potential and be the best they can.

Last season saw Arsenal in the Community build upon the success of a number of its social inclusion schemes which prioritise social outcomes over sporting achievement. At the National Kickz Awards 2010, the Club picked up three honours including the Inspiring Young Person and Outstanding Kickz Delivery Award. The Kickz programme brings together the football industry with police and other partners to positively engage young people in parks and spaces in the boroughs of Islington, Hackney, Camden and Westminster.

The Club continues to work hard on evolving its approach to inclusion. The Club has continued to promote its Arsenal for Everyone campaign which

is designed to drive inclusion, awareness and understanding of some of the key issues amongst supporters and other groups.

Arsenal's social inclusion programmes continue to act as a catalyst for regeneration in the local community. Since the opening of Elthorne Park's Cruyff Court – a legacy left by Arsenal legend, Dennis Bergkamp – the Arsenal Charitable Trust has joined forces with Arsenal Kit Sponsor, Nike, to launch a pitch improvement fund to upgrade inner city pitches where Arsenal in the Community coaches can provide football sessions in safe spaces for young people. The King Square Estate in Islington welcomed a new multi-use play area and football pitch in November 2010, officially opened by Arsenal defender Johan Djourou, as part of the collaboration which was also made possible thanks to an ongoing and successful partnership with Homes for Islington.

In March 2011, Boris Johnson announced that Elthorne Park had won the Mayor of London's Safer Parks Gold Award. One of 12 winners of the Gold standard, the award recognises good practice in





tackling anti-social behaviour and increasing safety in London's parks. A key part of the award is community involvement, acknowledging the key role local people and organisations have in making a truly successful park.

As a departure from football, a cross section of young people from Arsenal in the Community's social inclusion programmes came together last season to record an anti-gun and knife crime song with the help of a number of high-profile artists. The recording sent out a serious message about the devastating effect that weapons can have, ruining lives and destroying communities.

Arsenal in the Community also continues to develop its education programmes. Working with the Italian Consulate General, the Istituto Italiano di Cultura and Royal Holloway University, the Club's community department celebrated the expansion of its Double Club scheme by adding Italian to its award winning modern languages programme. The Double Club uses football and Arsenal related resources to improve learning in the classroom, followed by a modern languages football coaching session— mirroring the two halves of a football match. The scheme promotes

and aids the learning of Spanish, French, Portuguese, German and Italian.

The initiative was once again recognised by the National Centre for Languages, CILT as showing Outstanding Commitment as Business Language Champions. There was also recognition and funding from the German Football Association (DFB) for promoting the German language.

Building on the successful Premier League 4 Sport initiative which sees Premier League clubs linking up with their local volleyball, table tennis, judo, badminton and netball clubs, Arsenal's table tennis scheme has seen the rise of Tyla Anderson who has participated in a number of high profile tournaments and enjoyed success in the Junior British Table Tennis League, beating a number of players in England's top ten to win tournaments and rise through the British junior rankings where he currently sits at number 21.

Arsenal also includes hockey in its community sports portfolio. The Club has provided hockey coaching for inner-city schoolchildren for over 20 years and gives players further opportunities to develop their skills thanks to its link with Old Loughtonians Hockey Club. A notable success from its long-standing hockey scheme is Darren Cheesman, who was introduced to the sport through Arsenal in the Community and is now a member of Great Britain's Olympic squad for London 2012.

Arsenal in the Community continues its commitment to making sport accessible to all and along with other partners in Islington, has signed a pledge entitled 'Time to Change,' which is England's most ambitious programme led by mental health charities, Mind and Rethink, to end the discrimination faced by people who experience mental health problems. As part of the Club's commitment to the campaign, Arsenal in the Community co-ordinates regular football sessions for people suffering from mental illness. Arsenal midfielder Jack Wilshere visited the project at the end of last season to take part in a football session and meet the participants. ■

# Community



# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 May 2011. ■

## Principal activities

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

## Profits and dividends

The results for the year are set out on page 37 and are considered, together with a review of the Group's business performance for the year and its future prospects, in the Financial Review section of the Annual Report. The directors do not recommend the payment of a dividend for the year (2010 - £Nil). ■

## Going concern

The Group's business activities together with the factors likely to affect its future development and performance are summarised in the Chairman's Report, the Chief Executive's Report and the Financial Review. The Financial Review describes the financial position of the Group and its cash flows, liquidity position and borrowing facilities.

The Group's bank facilities are not currently due for renewal, however, the Group has held a discussion with its bankers about these facilities and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financial resources and bank facilities. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the financial statements continue to be prepared on the going concern basis. ■

## Directors

The directors of the company, all of whom served throughout the year are set out below:

- P.D. Hill-Wood
- Lord Harris of Peckham
- K.J. Friar OBE
- E.S. Kroenke
- I.E. Gazidis
- Sir Chips Keswick

In addition, D.D. Fiszman served as a director until 13 April 2011. ■

## Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £101,834 (2010 - £97,801). ■

## 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 57 days (2010 - 69 days). ■

## Employees

Within the bounds of commercial confidentiality, the Group endeavours to keep staff at all levels informed of matters that affect the progress of the Group and are of interest to them as employees.

The Group operates an equal opportunities policy. The aim of this policy is to ensure that there should be equal opportunity for all and this applies to external recruitment, internal appointments, terms of employment, conditions of service and



opportunity for training and promotion regardless of gender, ethnic origin or disability.

Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of the disability. Should, for whatever reason, an employee of the Group become disabled whilst in employment, every step, where appropriate will be taken to assist with rehabilitation and suitable retraining. The Group maintains its own health, safety and environmental policies covering all aspects of its operations. Regular meetings and inspections take place to ensure all legal requirements are adhered to and that the Group is responsive to the needs of its employees and the environment. ■

### Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. ■

### Disclosure of information to auditor

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

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

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



**D Miles**

**Company Secretary**

30 September 2011

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



The directors acknowledge the importance of the Combined Code issued in 2008 and have complied with its requirements so far as is appropriate to a Group of the size and nature of Arsenal Holdings plc. ■

#### **Directors**

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

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

#### **Internal control**

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

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

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

#### **Audit Committee**

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

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

#### **Nominations Committee**

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

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

#### **Remuneration Committee**

The Remuneration Report is set out on page 35. ■



The Remuneration Report

**The Remuneration Committee**

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

**Policy on remuneration of executive directors**

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

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

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

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

**Directors' remuneration**

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



**P.D. Hill-Wood**

**Chairman of the Remuneration Committee**

30 September 2011



Independent Auditor's Report to the  
Members of Arsenal Holdings plc

We have audited the financial statements of Arsenal Holdings plc for the year ended 31 May 2011 which comprise the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed. ■

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. ■

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. ■

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 May 2011 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006. ■

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements. ■

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit. ■



**John Murphy**  
**Senior Statutory Auditor**

for and on behalf of Deloitte LLP, Chartered Accountants and Statutory Auditor  
London, 30 September 2011

# Consolidated Profit and Loss Account

for the year ended 31 May 2011

	Note	2011			2010		
		Operations excluding player trading £000's	Player trading £000's	Total £000's	Operations excluding player trading £000's	Player trading £000's	Total £000's
<b>Turnover of the Group including its share of joint ventures</b>		257,107	735	257,842	381,262	460	381,722
Share of turnover of joint venture		(2,150)	-	(2,150)	(1,866)	-	(1,866)
<b>Group turnover</b>	3	254,957	735	255,692	379,396	460	379,856
Operating expenses	4	(212,128)	(21,658)	(233,786)	(319,272)	(25,033)	(344,305)
<b>Operating profit/(loss)</b>		42,829	(20,923)	21,906	60,124	(24,573)	35,551
Share of joint venture operating result		822	-	822	463	-	463
Profit on disposal of player registrations		-	6,256	6,256	-	38,137	38,137
<b>Profit on ordinary activities before finance charges</b>		43,651	(14,667)	28,984	60,587	13,564	74,151
Net finance charges	5			(14,208)			(18,183)
<b>Profit on ordinary activities before taxation</b>				14,776			55,968
Taxation	8			(2,143)			5,024
<b>Profit after taxation retained for the financial year</b>				12,633			60,992
<b>Earnings per share</b>							
Basic and diluted	9			£203.05			£980.31

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 Sheets  
as at 31 May 2011

	Note	Group 2011 £000's	Group 2010 £000's	Company 2011 £000's	Company 2010 £000's
<b>Fixed assets</b>					
Tangible fixed assets	10	431,428	434,494	-	-
Intangible fixed assets	11	55,717	60,661	-	-
Investments	12	1,648	1,053	30,059	30,059
		<u>488,793</u>	<u>496,208</u>	<u>30,059</u>	<u>30,059</u>
<b>Current assets</b>					
Stock - development properties	13	33,460	45,755	-	-
Stock - retail merchandise		1,114	1,887	-	-
Debtors - due within one year	14	27,435	62,289	2	2
- due after one year	14	2,214	2,928	131,259	125,601
Cash and short-term deposits	15	160,229	127,607	10,384	16,246
		<u>224,452</u>	<u>240,466</u>	<u>141,645</u>	<u>141,849</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(131,104)</u>	<u>(154,835)</u>	<u>(2,528)</u>	<u>(21)</u>
<b>Net current assets</b>		<u>93,348</u>	<u>85,631</u>	<u>139,117</u>	<u>141,828</u>
<b>Total assets less current liabilities</b>		<u>582,141</u>	<u>581,839</u>	<u>169,176</u>	<u>171,887</u>
<b>Creditors: amounts falling due after more than one year</b>	17	<u>(275,912)</u>	<u>(283,883)</u>	<u>(14,117)</u>	<u>(13,779)</u>
<b>Provisions for liabilities and charges</b>	19	<u>(38,274)</u>	<u>(42,634)</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>		<u>267,955</u>	<u>255,322</u>	<u>155,059</u>	<u>158,108</u>
<b>Capital and reserves</b>					
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	211,197	198,564	125,000	128,049
<b>Shareholders' funds</b>		<u>267,955</u>	<u>255,322</u>	<u>155,059</u>	<u>158,108</u>

These financial statements of Arsenal Holdings Plc (registered number 4250459) were approved and authorised for issue by the Board of Directors on 30 September 2011.

Signed on behalf of the Board of Directors

*P.D. Hill-Wood*

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



Consolidated Cash Flow Statement  
for the year ended 31 May 2011

	Note	2011 £000's	2010 £000's
<b>Net cash inflow from operating activities</b>	25a	53,142	176,560
Player registrations	25d	(1,528)	15,903
Returns on investment and servicing of finance	25d	(17,220)	(17,649)
Taxation		13,664	(6,294)
Capital expenditure	25d	(9,546)	(5,342)
Net cash inflow before financing		38,512	163,178
Financing	25d	(5,890)	(135,188)
Management of liquid resources		49,340	(48,542)
Change in cash in the year		81,962	(20,552)
Change in short-term deposits		(49,340)	48,542
<b>Increase in cash and short-term deposits</b>		<b>32,622</b>	<b>27,990</b>

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



## 1. Principal accounting policies

### (a) Basis of accounting

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

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

The Group financial statements consolidate the assets, liabilities and results of the Company and its subsidiary undertakings made up to 31 May 2011.

As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the year was £3.0 million (2010 - profit of £25.4 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 KSE UK Inc under a contractual arrangement.

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

### (d) Turnover and income recognition

Turnover represents income receivable, net of VAT, from football and related commercial activities and income from the sale of development properties completed in the year. The Group has two classes of business - the principal activity of operating a professional football club and property development - both businesses are carried out principally within the United Kingdom.

Gate, match and other event day revenue is recognised over the period of the football season as games are played and events are staged. Sponsorship and similar commercial income is recognised over the duration of the respective contracts. The fixed element of broadcasting revenues is recognised over the duration of the football season whilst facility fees for live coverage or highlights are taken when earned. Merit awards are accounted for only when known at the end of the financial period. UEFA pool distributions relating to participation in the Champions League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned; these distributions are classified as broadcasting revenues. Fees receivable in respect of the loan of players are included in turnover over the period of the loan.

Income from the sale of development properties is recognised on completion of the relevant sale contract. Where elements of the sale price are subject to retentions by the purchaser the retained element of the sale price is not recognised until such time as all of the conditions relating to the retention have been satisfied.



**(e) Depreciation**

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

Freehold buildings - 2% per annum

Leasehold properties - Over the period of the lease

Plant and equipment - 5% to 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.

Finance costs directly attributable to the funding of property development projects are included within stocks.

**(h) Derivative financial instruments**

The Group uses derivative financial instruments to reduce exposure to interest rate and foreign exchange movements.

The Group does not hold derivative financial instruments for speculative purposes.

The Group's interest rate swaps are treated as hedges because the instruments relate to actual liabilities and change the nature of the interest rate by converting variable rates into fixed rates. Interest differentials under the swaps are recognised by adjusting net interest payable over the period of the contracts.

**(i) Stocks**

Stocks comprise retail merchandise and development property for onward sale and are stated at the lower of cost and net realisable value.

Where properties which are intended to be sold have been acquired they have been included in stock as development properties. Development property comprises freehold land inclusive of the direct cost of acquisition and other directly attributable property development costs including interest costs.

**(j) Grants**

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



**1. Principal accounting policies** (continued)

**(k) Player costs**

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

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 applicable player's registration.

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

**(l) 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 2011/12 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 evenly over the lease period.



**(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.

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	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Turnover	225,410	222,946	30,282	156,910	255,692	379,856
Segment operating profit	9,328	20,389	12,578	15,162	21,906	35,551
Share of operating profit of joint venture	822	463	-	-	822	463
Profit on disposal of player registrations	6,256	38,137	-	-	6,256	38,137
Net finance charges	(14,194)	(14,208)	(14)	(3,975)	(14,208)	(18,183)
Profit on ordinary activities before taxation	2,212	44,781	12,564	11,187	14,776	55,968
Segment net assets	237,053	235,509	30,902	19,813	267,955	255,322

Operating profit from football before depreciation, player trading and exceptional items amounted to £45.8 million (2010 - £56.8 million); being segment operating profit (as above) of £9.3 million, adding back depreciation of £12.5 million, exceptional costs of £3.1 million and operating loss from player trading of £20.9 million.

## 3. Turnover

	2011 £000's	2010 £000's
Turnover, all of which originates in the UK, comprises the following:		
Gate and other match day revenues	93,108	93,929
Broadcasting	85,244	84,584
Retail	13,245	12,613
Commercial	33,078	31,360
Property development	30,282	156,910
Player trading	735	460
	<u>255,692</u>	<u>379,856</u>



#### 4. Operating expenses

	2011 £000's	2010 £000's
Operating expenses comprise:		
Amortisation of player registrations	21,658	25,033
Depreciation (less amortisation of grants)	<u>12,498</u>	<u>11,915</u>
Total depreciation and amortisation	34,156	36,948
Staff costs (see note 6)	124,401	110,733
Cost of property sales	25,484	141,630
Other operating charges	54,528	54,994
Exceptional items	<u>(4,783)</u>	-
<b>Total operating expenses</b>	<b><u>233,786</u></b>	<b><u>344,305</u></b>
Exceptional items comprise:		
Costs of takeover transaction	3,077	-
Write back of impairment provision	<u>(7,860)</u>	-
	<u>(4,783)</u>	-

The costs of the takeover transaction relate to professional advice to the Company in connection with the offer and share acquisition whereby KSE UK Inc. acquired a controlling interest in the shares of the Company.

The write back of the impairment provision relates to the development site at Queensland Road and follows on from Ashburton Trading Limited, a subsidiary company, exchanging contracts for the sale of part of the site for market housing, subsequent to the balance sheet date. The carrying value of the site has been increased to reflect the value now expected to be realised when the sale of the site is completed. The revenue and costs associated with the site will be included in the profit and loss account on legal completion of the sale. This amount net of tax is £5.7 million.



**4. Operating expenses** (continued)

	2011 £000's	2010 £000's
Other operating charges include:		
Auditor's remuneration		
- audit of the company's annual accounts	20	19
- audit of the subsidiaries pursuant to legislation	125	126
Total audit fees	145	145
- other services	104	40
- tax services	119	1,581
Total non-audit fees	223	1,621
Operating lease payments		
- plant and machinery	150	163
- other	698	621
Profit on disposal of tangible fixed assets	(35)	(14)

In addition to the amounts disclosed above, the Group incurred non-audit services fees payable to the company's auditor in relation to its ongoing property developments of £Nil (2010 - £65,000) (included in development property stocks).

The level of fees for tax services in the prior year reflected the resolution of a number of issues with HM Revenue & Customs.

**5. Net finance charges**

	2011 £000's	2010 £000's
<b>Interest payable and similar charges:</b>		
Bank loans and overdrafts	34	1,908
Fixed/ floating rate bonds	13,462	13,790
Other	341	(2)
Costs of raising long term finance	937	3,329
	14,774	19,025
Finance costs capitalised	-	(145)
Total interest payable and similar charges	14,774	18,880
Interest receivable	(566)	(697)
Net finance charges	14,208	18,183

The interest capitalised of £Nil (2010 - £145,000) is included in development properties stocks.



## 6. Employees

The average number of persons employed by the Group during the year was:	2011 Number	2010 Number
Playing staff	70	66
Training staff	47	42
Administrative staff	248	220
Ground staff	89	88
	<u>454</u>	<u>416</u>

In addition the Group used on average 834 temporary staff on match days (2010 – 861).

Staff costs:	£000's	£000's
Wages and salaries	109,578	96,652
Social security costs	13,340	11,946
Other pension costs	1,483	2,135
	<u>124,401</u>	<u>110,733</u>

## 7. Directors' emoluments

	2011					2010	
	Salary/fees £000's	Bonus £000's	Benefits £000's	Sub total £000's	Pension £000's	Total £000's	Total £000's
PD Hill Wood	65	-	2	67	-	67	75
KJ Friar OBE	302	350	25	677	-	677	1,016
DD Fiszman	24	-	-	24	-	24	25
Sir Chips Keswick	25	-	-	25	-	25	25
Lord Harris of Peckham	-	-	-	-	-	-	-
I Gazidis	1,026	601	2	1,629	100	1,729	1,818
ES Kroenke	25	-	-	25	-	25	25
	<u>1,467</u>	<u>951</u>	<u>29</u>	<u>2,447</u>	<u>100</u>	<u>2,547</u>	<u>2,984</u>

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



## 8. Tax on profit on ordinary activities

	2011 £000's	2010 £000's
UK corporation tax charge at 27.67% (2010 – 28%)	4,836	1,056
Under/(over) provision in respect of prior years	247	(18,599)
<b>Total current taxation</b>	<b>5,083</b>	<b>(17,543)</b>
<b>Deferred taxation (see note 19)</b>		
Origination and reversal of timing differences	(475)	4,462
Impact of change in tax rate	(2,489)	-
Under provision in respect of prior years	24	8,057
<b>Total tax charge/(credit) on profit on ordinary activities</b>	<b>2,143</b>	<b>(5,024)</b>

From 1 April 2011 the rate of UK corporation tax was reduced from 28% to 26%. The Group's deferred tax liabilities have been revalued based on the 26% rate. The impact of the rate change is a deferred tax credit of £2.5 million.

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2011 £000's	2010 £000's
<b>Group profit on ordinary activities before tax</b>	<b>14,776</b>	<b>55,968</b>
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 27.67% (2010 – 28%)	4,089	15,671
Effects of:		
Capital allowances in excess of depreciation	190	(139)
Other timing differences	285	(4,324)
Non taxable income/expenses not deductible	272	(10,152)
Adjustments to tax charge in respect of prior years	247	(18,599)
Group current tax for the year	<b>5,083</b>	<b>(17,543)</b>

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

- the legislation relating to taxation of profits on disposal of intangible assets, including player registrations, and rollover relief thereon; and
- the capital gain rolled over in respect of Highbury Stadium.



The Finance Act 2011, which provides for a reduction in the main rate of corporation tax to 25% effective from 1 April 2012, was substantively enacted on 25 July 2011. As this legislation was not substantively enacted at the balance sheet date, the rate reduction is not reflected in these financial statements. This is in accordance with FRS 21, as the rate change is a non-adjusting event occurring after the reporting period. The impact of the rate reduction will be reflected in the next reporting period when it is estimated to reduce the Group's deferred tax liability at 31 May 2011 by £1.3 million.

### 9. Earnings per share

Earnings per share (basic and diluted) are based on the weighted average number of ordinary shares of the Company in issue being 62,217 shares (2010 - 62,217 shares). The calculation of earnings per share (basic and diluted) is based on the following data:-

	2011 £000's	2010 £000's
Earnings attributable to equity shareholders (retained profit)	12,633	60,992
Adjustment to exclude exceptional items net of tax charges (see note 4)	<u>(2,608)</u>	<u>-</u>
Earnings for the purpose of earnings per share excluding exceptional charges	<u><u>10,025</u></u>	<u><u>60,992</u></u>

### 10. Tangible fixed assets

	Freehold properties £000's	Leasehold properties £000's	Plant and equipment £000's	Total £000's
<b>Group Cost</b>				
At 1 June 2010	393,131	6,418	84,458	484,007
Additions	6,448	91	3,039	9,578
Disposals	<u>-</u>	<u>-</u>	<u>(109)</u>	<u>(109)</u>
At 31 May 2011	<u><u>399,579</u></u>	<u><u>6,509</u></u>	<u><u>87,388</u></u>	<u><u>493,476</u></u>
<b>Depreciation</b>				
At 1 June 2010	23,318	2,399	23,796	49,513
Charge for the year	5,660	382	6,602	12,644
Disposals	<u>-</u>	<u>-</u>	<u>(109)</u>	<u>(109)</u>
At 31 May 2011	<u><u>28,978</u></u>	<u><u>2,781</u></u>	<u><u>30,289</u></u>	<u><u>62,048</u></u>
<b>Net book value</b>				
At 31 May 2011	<u><u>370,601</u></u>	<u><u>3,728</u></u>	<u><u>57,099</u></u>	<u><u>431,428</u></u>
At 31 May 2010	<u><u>369,813</u></u>	<u><u>4,019</u></u>	<u><u>60,662</u></u>	<u><u>434,494</u></u>

At 31 May 2011 the Group had contracted capital commitments of £6.3 million (2010 - £5.3 million).



**11. Intangible fixed assets**

	£000's
<b>Cost of player registrations</b>	
At 1 June 2010	143,972
Additions	20,337
Disposals	<u>(25,987)</u>
At 31 May 2011	<u>138,322</u>
<b>Amortisation of player registrations</b>	
At 1 June 2010	83,311
Charge for the year	21,658
Disposals	<u>(22,364)</u>
At 31 May 2011	<u>82,605</u>
<b>Net book value</b>	
At 31 May 2011	<u>55,717</u>
At 31 May 2010	<u>60,661</u>

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

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

**12. Investments**

	Group	
	2011 £000's	2010 £000's
<b>Investment in joint venture</b>		
Investments at cost	20,000	20,000
Accumulated share of profit of joint venture	1,648	1,053
Adjustment to eliminate unrealised profit on sale of intangible assets	<u>(20,000)</u>	<u>(20,000)</u>
Share of joint venture	<u>1,648</u>	<u>1,053</u>



The joint venture represents an interest in Arsenal Broadband Limited, a company incorporated in Great Britain and engaged in running the official Arsenal Football Club internet portal. The Group owns all of the 20,000,001 Ordinary "A" shares of £1 each and the one "C" share of £1 issued by Arsenal Broadband Limited and controls 50 per cent of the voting rights. The Group's share of the assets included in the audited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2011 is as follows:

	2011 £000's	2010 £000's
Fixed assets	321	236
Current assets	2,669	3,054
Liabilities	<u>(1,342)</u>	<u>(2,237)</u>
	<u>1,648</u>	<u>1,053</u>
<b>Investments in subsidiary undertakings</b>		<b>Company £000's</b>
Balance at 1 June 2010 and 31 May 2011		<u>30,059</u>

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 developer



### 13. Stock - development properties

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

### 14. Debtors

	Group		Company	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
<b>Amounts recoverable within one year</b>				
Trade debtors	10,032	13,486	-	-
Other debtors	3,182	18,531	-	-
Prepayments and accrued income	14,221	16,365	2	2
Corporation tax	-	13,907	-	-
	<u>27,435</u>	<u>62,289</u>	<u>2</u>	<u>2</u>
<b>Amounts recoverable in more than one year</b>				
Trade debtors	-	500	-	-
Amount due from group undertakings	-	-	131,259	125,601
Prepayments and accrued income	<u>2,214</u>	<u>2,428</u>	-	-
	<u>2,214</u>	<u>2,928</u>	<u>131,259</u>	<u>125,601</u>

Other debtors include £0.7 million in respect of player transfers (2010 - £17.9 million).



### 15. Cash and short-term deposits

	Group		Company	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Debt service reserve accounts	31,687	31,468	-	-
Other accounts	<u>128,542</u>	<u>96,139</u>	<u>10,384</u>	<u>16,246</u>
	<u>160,229</u>	<u>127,607</u>	<u>10,384</u>	<u>16,246</u>

The Group is required under the terms of its fixed rate bonds and floating rate bonds to maintain specified amounts on bank deposit as security against future payments of interest and principal. Accordingly the use of these debt service reserve accounts is restricted to that purpose. Included in other accounts is a balance of £4.5 million (2010 - £6.6 million) which is held in connection with the site works at Queensland Road. The use of this deposit is restricted to that purpose and Newlon Housing Trust is a joint signatory. The Group uses short-term bank treasury deposits as a means of maximising the interest earned on its cash balances.

	Group		Company	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Cash at bank and in hand	115,509	33,547	4	46
Short-term deposits	<u>44,720</u>	<u>94,060</u>	<u>10,380</u>	<u>16,200</u>
	<u>160,229</u>	<u>127,607</u>	<u>10,384</u>	<u>16,246</u>

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

	Group		Company	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Fixed rate bonds - secured	5,583	5,248	-	-
Trade creditors	10,324	11,079	-	-
Corporation tax	4,612	-	6	-
Other tax and social security	16,867	13,987	-	-
Other creditors	9,717	13,721	-	-
Accruals and deferred income	<u>84,001</u>	<u>110,800</u>	<u>2,522</u>	<u>21</u>
	<u>131,104</u>	<u>154,835</u>	<u>2,528</u>	<u>21</u>

Other creditors, above and as disclosed in note 17, include £10.7 million (2010 - £17.7 million) in respect of player transfers.



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

	Group		Company	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Fixed rate bonds - secured	172,713	178,432	-	-
Floating rate bonds - secured	52,999	53,143	-	-
Debenture loans	26,761	26,423	12,331	11,993
Amounts due to group undertakings	-	-	1,786	1,786
Other creditors	5,802	6,921	-	-
Grants	4,137	4,284	-	-
Deferred income	13,500	14,680	-	-
	<u>275,912</u>	<u>283,883</u>	<u>14,117</u>	<u>13,779</u>
Debenture loans comprise:				
Par value of debentures plus accumulated interest	27,072	26,734	12,642	12,304
Costs of raising finance	<u>(311)</u>	<u>(311)</u>	<u>(311)</u>	<u>(311)</u>
	<u>26,761</u>	<u>26,423</u>	<u>12,331</u>	<u>11,993</u>

Under the issue terms debentures with a par value of £14,430,000 are repayable at par after 131 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 17 years and carry cumulative compound interest at 2.75% per annum.

	2011 £000's	2010 £000's
The fixed rate bonds above and disclosed in note 16 comprise:		
Fixed rate bonds	183,428	189,318
Costs of raising finance	<u>(5,132)</u>	<u>(5,638)</u>
	<u>178,296</u>	<u>183,680</u>
Due within one year	5,583	5,248
Due after more than one year	<u>172,713</u>	<u>178,432</u>
	<u>178,296</u>	<u>183,680</u>

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



The floating rate bonds above comprise:	<b>2011</b>	<b>2010</b>
	£000's	£000's
Floating rate bonds	50,000	50,000
Interest rate swap	5,645	5,925
Costs of raising finance	<u>(2,646)</u>	<u>(2,782)</u>
	<u>52,999</u>	<u>53,143</u>
Due within one year	-	-
Due after more than one year	<u>52,999</u>	<u>53,143</u>
	<u>52,999</u>	<u>53,143</u>

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 £642,000 (2010 - £659,000).

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 and floating rate bonds are secured by a mixture of legal mortgages and fixed charges on certain freehold and leasehold property and certain plant and machinery owned by the Group, by fixed charges over certain of the Group's trade debtors, by fixed charges over £59.5 million (2010 - £46.5 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:	<b>2011</b>	<b>2010</b>
	£000's	£000's
Between one and two years	6,545	6,209
Between two and five years	21,842	20,719
After five years	<u>225,904</u>	<u>233,234</u>
	254,291	260,162
Within one year	<u>6,209</u>	<u>5,890</u>
Total debt	<u>260,500</u>	<u>266,052</u>



### 18. Derivative financial instruments

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

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

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

#### Interest rate profile

After taking into account these interest rate swaps, the interest rate profile of the Group's financial liabilities at 31 May 2011 was as follows:

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



The interest rate profile at 31 May 2010 for comparative purposes was:

	Fixed rate 2010 £000's	Floating rate 2010 £000's	Interest free 2010 £000's	Total 2010 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds - fixed rate	189,318	-	-	189,318	5.6	19
Bonds - floating rate	50,000	-	-	50,000	6.6	21
Debenture loans	12,304	-	14,430	26,734	2.8	18
	<u>251,622</u>	<u>-</u>	<u>14,430</u>	<u>266,052</u>		

In the prior year, the interest rate on the floating rate element of bank loans was set at LIBOR plus margins ranging from 1.3% to 2.0%. The Group's bank deposits earn interest at rates linked to LIBOR.

The Group's other financial assets, comprising mainly debtor balances, do not earn interest.

In addition to the above, the Group has commitments under letters of credit, as disclosed in note 27, of £0.3 million (2010 - £1.8 million) on which interest is currently paid at a fixed rate of 1%.

### Borrowing facilities

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

	2011 £000's	2010 £000's
Expiring in: One year or less	<u>55,000</u>	<u>55,000</u>

### Fair values

The fair value of all financial instruments at 31 May 2010 and 2011, other than interest rate swaps and forward exchange contracts as disclosed below, was not materially different from their book value.

	Book value 2011 £000's	Fair value 2011 £000's	Book value 2010 £000's	Fair value 2010 £000's
Derivative financial instruments held to manage the Group's foreign exchange/interest rate profile:				
Forward exchange contracts	-	(370)	-	-
Interest rate swaps	<u>-</u>	<u>(14,744)</u>	<u>-</u>	<u>(14,915)</u>



**18. Derivative financial instruments** (continued)

The fair value of interest rate swaps have been determined by reference to relevant market data and the discounted value of expected cash flows arising from the transactions.

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.

	2011 £000's	2010 £000's
An analysis of these unrecognised gains and losses is as follows:		
Unrecognised losses at start of year	(14,915)	(11,963)
Unrecognised losses arising in year	<u>(199)</u>	<u>(2,952)</u>
Unrecognised losses at end of year	<u>(15,114)</u>	<u>(14,915)</u>
Of which:		
Losses expected to be recognised in 2011/12	(370)	-
Losses expected to be recognised later than 2011/12	<u>(14,744)</u>	<u>(14,915)</u>
	<u>(15,114)</u>	<u>(14,915)</u>

**Foreign currencies**

Included in cash and short term deposits are amounts of £6.1 million (2010 - £13.1 million) denominated in Euros.

The Group has entered into certain foreign currency contracts which hedge its exposure to exchange rate fluctuations and provide for the future conversion of up to €19.5 million at rates ranging from £1: €1.05 to €1.20. Gains and losses on these contracts are not recognised until the exposure being hedged is itself recognised.

Included in other debtors are amounts of £0.3 million (2010 - £4.4 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £7.5 million (2010 - £11.1 million) denominated in Euros.

Included in other creditors are amounts of £0.3 million (2010 - £5.6 million) denominated in Euros and £0.2 million (2010 - £0.6 million) denominated in US dollars. Included in provisions are amounts of £3.9 million (2010 - £3.3 million) denominated in Euros and £0.6 million (2010 - £0.6 million) denominated in US dollars.



### 19. Provisions for liabilities and charges

	Group	
	2011 £000's	2010 £000's
Pensions provision (see note 29 (b))	970	1,176
Deferred taxation	32,247	35,186
Transfers	<u>5,057</u>	<u>6,272</u>
	<u>38,274</u>	<u>42,634</u>

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 £3.4 million were made during the year, £0.9 million of provisions were reclassified as creditors and £3.7 million of provisions were cancelled as no longer required.

The deferred tax credit for the year was £2.9 million (see note 8) (2010 – charge of £12.5 million).

	Group	
	2011 £000's	2010 £000's
<b>Deferred tax provision</b>		
Corporation tax deferred by accelerated capital allowances	14,240	15,505
Interest capitalised and other timing differences	<u>18,007</u>	<u>19,681</u>
Total provision for deferred taxation	<u>32,247</u>	<u>35,186</u>

### 20. Called up share capital

	Group	
	2011 Number	2010 Number
<b>Authorised</b>		
Ordinary shares of £1 each	62,217	62,217
Subscriber ordinary shares of £1 each	2	2
Redeemable preference shares	<u>49,998</u>	<u>49,998</u>
<b>Allotted, issued and fully paid</b>	<b>£</b>	<b>£</b>
Subscriber Ordinary shares of £1 each	2	2
Ordinary shares of £1 each	<u>62,217</u>	<u>62,217</u>

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



Notes to the Accounts  
for the year ended 31 May 2011

**21. Share premium**

	Group £000's	Company £000's
Balance at 1 June 2010 and 31 May 2011	<u>29,997</u>	<u>29,997</u>

**22. Other reserves**

Group	Merger reserve £000's
Balance at 1 June 2010 and 31 May 2011	<u>26,699</u>

**23. Profit and loss account**

	Group Profit and loss account £000's	Company Profit and loss account £000's
Balance at 1 June 2010	198,564	128,049
Profit/(loss) for the year	<u>12,633</u>	<u>(3,049)</u>
Balance at 31 May 2011	<u>211,197</u>	<u>125,000</u>

**24. Reconciliation of movement in shareholders' funds**

	2011 £000's	2010 £000's
Profit for the year	12,633	60,992
Opening shareholders' funds	<u>255,322</u>	<u>194,330</u>
Closing shareholders' funds	<u>267,955</u>	<u>255,322</u>



**25. Notes to the consolidated cash flow statement**

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

	2011 £000's	2010 £000's
<b>Operating profit</b>	21,906	35,551
Amortisation of player registrations	21,658	25,033
Profit on disposal of tangible fixed assets	(35)	(14)
Depreciation	12,498	11,915
Decrease in stock	13,068	121,261
Decrease/(increase) in debtors	4,500	(869)
Decrease in creditors	<u>(20,453)</u>	<u>(16,317)</u>
<b>Net cash inflow from operating activities</b>	<u><u>53,142</u></u>	<u><u>176,560</u></u>

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

	2011 £000's	2010 £000's
Increase in cash and short-term deposits for the period	32,622	27,990
Cash outflow from change in debt	<u>5,890</u>	<u>135,188</u>
Change in net debt resulting from cash flows	38,512	163,178
Change in debt resulting from non cash changes	(700)	(1,137)
Net debt at start of year	<u>(135,639)</u>	<u>(297,680)</u>
Net debt at end of year	<u><u>(97,827)</u></u>	<u><u>(135,639)</u></u>

As disclosed in note 15, a bank balance of £4.5 million (2010 - £6.6 million), included within net debt, is held in connection with Queensland Road site works.



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

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

	At 1 June 2010 £000's	Non cash changes £000's	Cash flows £000's	At 31 May 2011 £000's
Cash at bank and in hand	33,547	-	81,962	115,509
Short-term deposits	94,060	-	(49,340)	44,720
	127,607	-	32,622	160,229
Debt due within one year (bonds)	(5,248)	-	(335)	(5,583)
Debt due after more than one year (bonds)	(231,575)	(362)	6,225	(225,712)
Debt due after more than one year (debentures)	(26,423)	(338)	-	(26,761)
Net debt	(135,639)	(700)	38,512	(97,827)

Non cash changes represent £642,000 in respect of the amortisation of costs of raising finance, £338,000 in respect of rolled up, unpaid debenture interest and £280,000 in respect of amortisation of the premium on certain of the Group's interest rate swaps.

**(d) Gross cash flows**

	2011 £000's	2010 £000's
<b>Player registrations</b>		
Payments for purchase of players	(28,561)	(29,940)
Receipts from sale of players	27,033	45,843
	(1,528)	15,903
<b>Returns on investment and servicing of finance</b>		
Interest received	565	738
Finance charges paid	(17,785)	(18,387)
	(17,220)	(17,649)
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(9,581)	(5,366)
Receipts from sale of tangible fixed assets	35	24
	(9,546)	(5,342)
<b>Financing</b>		
Repayment of borrowings	(5,890)	(133,539)
Costs of raising finance	-	(1,649)
Total debt financing	(5,890)	(135,188)



## 26. Leasing commitments

Commitments due under operating leases for the period to 31 May 2012 are in respect of:

	2011		2010	
	Land and buildings £000's	Other £000's	Land and buildings £000's	Other £000's
Leases expiring in:				
One year or less	-	25	7	-
Two to five years	50	125	-	164
Over five years	654	-	652	-
	<u>704</u>	<u>150</u>	<u>659</u>	<u>164</u>

## 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 £12.5 million (2010 - £13.9 million).

The Group has commitments outstanding under letters of credit, issued to guarantee its performance of certain future contractual obligations in relation to its new stadium and property development projects, of £0.3 million (2010 - £1.8 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:-

	2011 Income/ (charge) £000's	2010 Income/ (charge) £000's
Provision of office services	134	112
Merchandising and advertising sales	(286)	(617)
Arsenal TV	<u>(368)</u>	<u>(730)</u>

At 31 May 2011 the balance owing from the Group to Arsenal Broadband Limited was £2,378,000 (2010 - £2,132,000).



## 29. Pensions

### a) Defined contribution schemes

Total contributions charged to the profit and loss account during the year amounted to £1,443,000 (2010 - £2,095,000).

### b) Defined benefit scheme

	2011 £000's	2010 £000's
Provision at start of year	1,176	1,362
Payments in year	<u>(206)</u>	<u>(186)</u>
Provision at end of year	<u>970</u>	<u>1,176</u>

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 2008 and indicated that the contribution required from the Group towards making good this deficit was £1.3 million at 1 September 2009 (the total deficit in the Scheme at this date was £13.2 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 September 2009. Payments for the year amounted to £206,000 and the profit and loss account charge was £40,000 (2010 - £40,000).

## 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 receipt resulting from these transfers, taking into account the applicable levies, is £12.1 million. These transfers will be accounted for in the year ending 31 May 2012.

## 31. Ultimate parent undertaking and controlling party

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





Five Year Summary

	2007	2008	2009	2010	2011
	£000's	£000's	£000's	£000's	£000's
<b>Profit and Loss Account</b>					
<b>Group Turnover</b>	200,843	222,970	313,339	379,856	255,692
<b>Operating profit before player trading and exceptional costs</b>	41,614	48,018	58,800	60,124	38,046
Operating expenses - player registrations	(18,238)	(21,285)	(20,287)	(24,573)	(20,923)
Operating expenses - exceptional	-	-	-	-	4,783
<b>Operating profit</b>	23,376	26,733	38,513	35,551	21,906
Share of results of joint venture	435	469	455	463	822
Profit on disposal of player registrations	18,467	26,458	23,177	38,137	6,256
Net interest - ordinary	(15,304)	(16,992)	(16,633)	(18,183)	(14,208)
Net interest - exceptional	(21,401)	-	-	-	-
<b>Profit before tax</b>	5,573	36,668	45,512	55,968	14,776
<b>Profit after tax</b>	2,816	25,726	35,230	60,992	12,633
<b>Earnings per share</b>	£45.26	£413.49	£566.24	£980.31	£203.04
<b>Earnings per share (excluding exceptional items)</b>	£286.05	£413.49	£566.24	£980.31	£161.13
<b>Balance Sheet</b>					
Tangible fixed assets	455,376	449,923	441,099	435,547	433,076
Intangible fixed assets	64,671	55,665	68,446	60,661	55,717
Net current assets/(liabilities)	61,231	(5,527)	9,768	85,631	93,348
Long term creditors and provisions	(447,904)	(340,961)	(324,983)	(326,517)	(314,186)
<b>Net assets</b>	133,374	159,100	194,330	255,322	267,955
Share capital	62	62	62	62	62
Share premium	29,997	29,997	29,997	29,997	29,997
Reserves	103,315	129,041	164,271	225,263	237,896
<b>Shareholders' funds</b>	133,374	159,100	194,330	255,322	267,955
<b>Net assets per share</b>	£2,143.69	£2,557.18	£3,123.42	£4,103.73	£4,306.78
<b>Playing record</b>					
FA Premier League	4th	3rd	4th	3rd	4th
FA Challenge Cup	5th round	5th round	Semi final	4th round	6th round
Europe	1st k/o round Champions League	Quarter finals Champions League	Semi final Champions League	Quarter finals Champions League	1st k/o round Champions League

