

## **ARSENAL CONFIRMS RECORD PROFIT AND SIGNIFICANT PROGRESS ON Highbury Square Project**

- Group turnover increased to £313.3 million (2008 - £223.0 million) reflecting income generated from cup competitions and property sales.
- Match day revenue was increased to £100.1 million (2008 - £94.6 million), mainly as a result of progress to the UEFA Champions League and FA Cup semi-finals.
- Operating profits (before depreciation and player trading) in the football business were £62.7 million (2008 - £59.6 million).
- The completion of sale of 208 (2007 – Nil) private apartments at Highbury Square contributed £88.0 million of revenue (2008 - £15.2 million) and boosted the operating profit from property activities to £7.8 million (2008 – Nil).
- Profit after tax of £35.2 million (2008 - £25.7 million) was a record for the Group.
- Since the end of the financial year there have been a number of further positive developments in relation to the Group's Highbury Square project:
  - Of the 655 private apartments in the development, sales have now completed on 445 units with a cumulative sales revenue value of £172.4 million.
  - The balance on the bank loan used to fund the project has been substantially reduced to £47 million and agreement has been reached to refinance the loan and extend its term to December 2010.

Commenting on the results for the year, Peter Hill-Wood, non-executive Chairman, said:

“The Group's profits have now risen in each of the three years in which Emirates Stadium has been our home. This is excellent news although I should perhaps stress that making and reporting profits is not in itself the primary objective for the directors. First and foremost we are supporters of this great football club and, as such, our main goal will always be the achievement of success for Arsenal on the field. The Group's profitability is important because it is a by-product of running the Club as a solvent and successful business, which in turn allows us to maximise the level of investment in the playing staff and in the future development of the Club.”

Ivan Gazidis, Chief Executive, said:

“Clearly, the Club already has a first class stadium, an excellent world-wide reputation and outstanding core support. Football is a hugely competitive and fast moving business and we must ensure that Arsenal is not just keeping pace but setting the pace, both on and off the field. The Club is superbly positioned for the future and I am tremendously excited about the opportunities we have ahead of us.”

## **Arsenal Holdings plc Chairman's report**

I am pleased to open my report by confirming another year of strong financial results. The annual accounts show an after tax profit of £35.2 million (2008 – £25.7 million) and this represents a record level of annual retained profit for the Group.

The Group's profits have now risen in each of the three years in which Emirates Stadium has been our home. This is excellent news although I should perhaps stress that making and reporting profits is not in itself the primary objective for the directors. First and foremost we are supporters of this great football club and, as such, our main goal will always be the achievement of success for Arsenal on the field. The Group's profitability is important because it is a by-product of running the Club as a solvent and successful business, which in turn allows us to maximise the level of investment in the playing staff and in the future development of the Club.

The 2008/09 season was not without footballing success although the first team finished it without a trophy. In the Premier League a strong unbeaten run of 21 games ultimately carried us into a respectable fourth place finish. In addition, we reached the semi-finals of both the UEFA Champions League, for only the second time in the Club's history, and the FA Cup. Disappointingly, the team were unable to advance further in either of these competitions.

Whilst honours eluded the Club at first team level, there was considerable success elsewhere with the Under 18s team notably winning a League and FA Cup double. Arsène Wenger already has a wealth of young players developing in the first team squad and it is exciting to see another group of hugely talented players coming through at the next level down. There was more silverware for Arsenal Ladies too, as they completed a domestic treble of League, League Cup and FA Cup.

Earlier this year we were pleased to announce that Highbury Square had won the prestigious 'Special Jury Award' at MIPIM, which is the annual property world equivalent of the Oscars. We have always been confident of the outstanding quality and unique character of the Highbury Square project and, consequently, I am delighted to report that there have been a number of significant and positive developments over the summer months. These developments are covered in more detail in the Chief Executive's Report and the Financial Review, but the key message is that approaching 70 per cent of the 655 private apartments at Highbury Square have now completed sale and the related bank loan has been reduced from £137 million to £47 million. We believe that the development has outperformed the market and is now on a secure footing which should allow us to maximise our final return.

Ivan Gazidis joined the Group as Chief Executive Officer on 1 January 2009 from Major League Soccer in the USA, where he was deputy commissioner. Ivan came to the Club with

an excellent knowledge of the football industry and he has quickly transferred this to the specifics of Arsenal, the Premier League and the European stage.

During the year there were a number of changes in the major shareholdings in the Group with both Kroenke Sports Enterprises and Red and White Securities taking their stakes beyond the 25 per cent level.

The Board continues to have a regular dialogue with each of the Group's major shareholders and, in recent months, this dialogue has prompted an analysis around the question of whether there should be a fundraising for the Group through a rights issue. This is a complex subject, reflecting the two aspects of the Group's business and the related financing arrangements. Now that we have resolved any issues linked to the financing of Highbury Square, in the final analysis I believe it distils down to a decision about whether it is appropriate to raise money from shareholders to purchase the registrations and pay the wages of footballers. This is not something that Arsenal has ever done previously in its history and it would be at odds with our ethos of running the Club as a business which is self-sustaining and pays its own way in the world.

The new season started with a headline grabbing 6-1 away win at Goodison Park and, although our opening schedule had some difficult fixtures, the team has produced some excellent performances. Following a reasonably comfortable 5-1 aggregate victory against Celtic in the play off round we have now reached the Group Stage of the UEFA Champions League for a 12<sup>th</sup> consecutive year – this is an outstanding record and places the Club within a small and elite group of top European clubs. We expect the level of competition both domestically and in Europe to be very high. Despite two disappointing results in Manchester, we remain optimistic and excited by the Club's prospects for the 2009/10 campaign.

We recognised the fact that many of our supporters have been affected by the difficult economic climate and accordingly we took the decision to recognise their commitment by once again freezing all admission prices for the 2009/10 season. Subsequently, the level of season ticket renewals has been excellent for which I would like to thank our loyal fans and congratulate the members of our box office team, who have worked so hard both in planning for and carrying through the renewals process.

Although transfer activity in the summer window was limited I can assure supporters that this followed lengthy discussions with Arsène Wenger and reflected Arsène's assessment of the player resources, both within the existing squad and available on the transfer market, rather than any necessity or financial constraint. Our two key acquisitions this year, Andrey Arshavin and Thomas Vermaelen, have proved very successful and Arsène has the resources to bring more players in, if he believes doing so will add to the quality which we already have in the squad.

The year saw the departure from the board of Arsenal Holdings plc of Lady Nina Bracewell-Smith and Richard Carr and once again I would like to record our thanks to them for their contribution to the Group over many years. Richard remains a director of Arsenal Football Club plc and he continues to be closely involved with our youth development programme.

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

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

P D Hill-Wood  
Chairman  
25 September 2009

## **Arsenal Holdings plc Chief Executive's report**

I am delighted and proud to be presenting my first report to shareholders as Chief Executive.

I have invested a fair proportion of my first nine months with the Group in conducting a thorough and wide-ranging assessment of the organisation and its position on both the domestic and global football stages. I am very encouraged by much that I have found. We have many excellent people and in a number of areas our operational standards and practices already define best practice. We are in a strong position financially and our business model is widely respected.

The economic background is clearly difficult but the impact of the recession on the results of our core football business for 2008/09 was limited. Many of the key aspects of our income were protected by virtue of the contractual arrangements in place before the start of the season but I also believe that the outstanding loyalty of the Club's supporters has played an important role.

Operationally, we dealt seamlessly with additional home fixtures associated with last season's cup runs and additional events including the Brazil versus Italy international friendly and the Capital Radio Summertime Ball. Over 50,000 music fans attended the Capital event, which was the second ever concert at Emirates Stadium, and enjoyed sixteen acts from the UK and the US including Lionel Ritchie, Leona Lewis, Dizzee Rascal and Blue. Discussions are already well advanced for next year's concert schedule.

The UK property market has been particularly affected by the economic downturn and our major development project at Highbury Square has reached its final stages during a period where the market conditions have been extremely challenging.

By the close of the 2008/09 financial year we had completed the sale of 208 of the 655 private apartments at Highbury Square. Completions were much slower than was predicted in our original development plan as a consequence of the difficult conditions in the property and mortgage finance markets. This has had a direct impact on the repayments made against the £137 million bank facility used in part-funding the construction works. The sales completed contributed some £88 million of revenue and £10 million of operating profits within the Group's results for the year and, after funding the balance of the construction costs, allowed the bank loan to be reduced to £124 million.

Since the end of the financial year, some of the hard work we have put in on Highbury Square has begun to yield positive results.

First, the completion of all the remaining construction works and the central gardens has meant that apartment owners can fully enjoy living in an award winning building complex rather than a work in progress. The official opening ceremony for Highbury Square was held

on 24 September 2009 with Arsène Wenger and a number of the players in attendance. Secondly, following lengthy negotiations, the position of a number of key bulk purchase contracts for units at Highbury Square has been fully resolved and, in addition, the rate of private sales completions has noticeably picked up. Finally, again after many months of negotiation, we have reached agreement for an extension of the term of the Highbury Square loan facility on terms which we consider to be reasonable and appropriate.

Following on from these developments, the number of private apartment sales completions has now risen to 445 with a cumulative sales revenue value of £172 million and the bank loan has been substantially reduced, to £47 million. Although we still have to obtain completions or re-sell some 210 flats, the in-fill plots around the site and certain commercial elements within the development, we are now confident that any remaining risk associated with the project has been minimised. Clearly the ultimate amount of the Group's profits from Highbury Square will remain uncertain until the remaining sales are concluded but we believe the development is now on a secure footing which should allow us to maximise our final return.

Turning to the Group's other long running property development project, at Queensland Road, I am pleased to confirm that planning permission was finally granted on 30 July 2009. The redevelopment permitted includes the realignment of the road and the construction of one new building to the south of the road up to six storeys high, comprising 213 residential units for use as affordable housing together with an area of commercial space. A second building will be constructed to the north of the road, incorporating five towers providing ten to fifteen floors of residential accommodation above a plinth of mainly commercial space. This building will include 516 residential units, an indoor sports centre to be operated by the Club, which will include local community use, and 179 car parking spaces. The residential units in the two towers to the west of the site will be used as affordable housing with the remainder for use as private market housing. We are already at an advanced stage of negotiations with Newlon Housing Trust with regard to the sale of all of the affordable housing and the site clearance works at Queensland Road.

### **On the Field**

The team produced some exciting and stylish football during the course of the 2008/09 season, in particular over the second half of the season when the momentum of an impressive 21 match unbeaten run in the Premier League helped to secure a fourth placed Premier League finish which at one stage of the season looked in doubt.

That fourth position in the Premier League with 72 points, meant the Club achieved 2009/10 UEFA Champions League participation for a 12th consecutive season, a record which is matched only by Real Madrid and Manchester United.

In the UEFA Champions League strong performances in the knock-out rounds produced wins over AS Roma and Villarreal as Arsenal progressed to the semi-finals of the competition for

only the second time in the Club's history. Reaching the same stage in the FA Cup meant Arsenal's first visit to the new Wembley Stadium. Unfortunately, the team was unable to convert the opportunities provided by these semi-final appearances and exited both competitions at this stage. In the Carling Cup Arsène Wenger once again deployed many of the Club's younger players in progressing to the quarter-finals.

Away from the first team, everyone associated with the Club was delighted by the success achieved by the youth team and by Arsenal Ladies in the 2008/09 season.

The Under-18s team completed a fantastic season by securing a league and cup double. Steve Bould's team won the FA Premier Academy League title and beat Liverpool over two legs in the FA Youth Cup Final. The first leg of the final was played at Emirates Stadium in front of a crowd of more than 33,000. This is a great achievement and congratulations go to all the players, coaches and staff in the Youth Development department. It is truly exciting to see such a talented group of young players coming through together.

Once again we must offer our congratulations to the Arsenal Ladies who were victorious in the FA Women's Premier League and both their League and FA Cups. The League win was achieved in dramatic fashion, with a win over Everton in the very last game of the league season. The continued success of Arsenal Ladies was a fitting tribute to Vic Akers, in his last year as the Ladies' manager. Vic had been manager of our ladies team for more than 20 years, in which time the team has won over 30 major honours, a truly fantastic achievement.

## Players

During the close season, the Club welcomed another exciting new player to its first team squad.

Belgian international defender Thomas Vermaelen joined Arsenal on a long-term contract from Dutch Eredivisie side Ajax, where he was club captain in the 2008/09 season. The 23 year-old, who is predominantly a central defender, has experience in both the UEFA Cup and UEFA Champions League including two appearances for Ajax against Arsenal in the Group Stage of the 2005/06 Champions League. During his time with Ajax, the club won the Dutch League Championship in 2003/04, the Dutch National Cup on two occasions (in 2006 and 2007) and the Dutch Super Cup twice (in 2006 and 2007). Thomas made his full international debut for Belgium in March 2006 and he has gone on to establish himself as a regular in his country's set-up.

The Club extends a warm welcome to Thomas, together with all the new 'First Year Scholars' joining our Youth Development programme this summer. We wish them all the best of luck during their Arsenal careers.

Our main focus over the summer months has been the retention of key members of the squad. We are delighted to have signed new long term contracts with Robin van Persie,

Theo Walcott, Kieran Gibbs, Jack Wilshere, Lukasz Fabianski, Aaron Ramsey, Denilson and Nicklas Bendtner.

The summer saw the departure of three first team squad players.

Emmanuel Adebayor left the Club to join Manchester City. Adebayor joined Arsenal from AS Monaco in January 2006 and made a total of 142 appearances for the Club scoring 62 times. He was our leading goal-scorer in the 2007/08 season, scoring 30 goals in all competitions during the campaign, which earned him a place in the PFA Premier League Team of the Year. During the 2008/09 season, Adebayor scored 16 goals from his 37 appearances, including six from nine appearances in the UEFA Champions League.

Kolo Toure, who was in the final year of his contract with the Club, also departed for Manchester City. Toure joined Arsenal in February 2002 and made a total of 326 appearances for the Club. He was a regular in the first team over the past seven seasons. During his time with Arsenal, Kolo won the FA Cup twice, in 2003 and 2005, and he was an important member of the 'Invincibles' squad which won the 2003/04 Premier League without losing a single game.

The third first team squad player to leave the Club during the close season was Amaury Bischoff who was released at the end of his contract with the Club.

We wish Kolo, Emmanuel and Amaury well for their future careers and thank them all for the contribution they made to Arsenal Football Club.

### **Commercial Partners**

The Club is fortunate to have the support of a number of blue chip companies and we continued to develop our commercial partner programme during the 2008/09 season.

The Club is delighted to have recently renewed its long-standing partnership with O2, the UK's leading mobile operator, for a further three seasons. This relationship extends back to the 2002/03 season and during that time O2 has been a key partner of the Club. As part of the new agreement, O2 will be providing specific offers for Arsenal supporters across its portfolio of services.

The Club welcomed Citroen as its official car partner for the 2008/09 season. The relationship incorporates a selection of rights including a link with Arsenal's charity of the season. Citroen developed a bespoke 'Ultimate Fan's Car', which was raffled in aid of the Teenage Cancer Trust, raising in excess of £12,000.

Despite the difficult economic climate, the Arsenal retail business proved to be robust, whilst E-commerce revenues showed growth in a static market. The Club has established an objective to expand its shop base and there will be two new Arsenal retail outlets opening inside the M25 in 2009/10.

Internationally, the Club continues to develop its merchandising business. BEC Tero, the Club's Thai partner, has continued to increase the number of outlets trading official Arsenal merchandise in Bangkok. Additionally, Arsenal has partnered with BEC Tero to enter the Chinese market. By the end of 2009, there will be two flagship stores and up to 50 concessions selling official Arsenal merchandise across 10 major cities in China. The Club has also partnered with the International Business Group in Bahrain to open a store and set up an Internet shopping service for customers in the Gulf States.

The 2008/09 season was the first in which the Club managed its licensing programme in-house. Licence revenue grew by over 30%, which fully justified the decision, and this area is expected to continue to expand and increase its contribution.

The Club's domestic and international soccer schools business has also moved forward. There are now 19 Arsenal soccer schools operating across the world, with several more planned. A notable achievement is the development of a new soccer school project in Dubai, where Arsenal has partnered with Emirates to operate a soccer school at their venue - The Sevens. This school will open in autumn 2009 and run a mix of courses for children, as well as community programmes.

Football training activities have also developed in other areas. A pilot soccer camp will be run in Denver USA, in conjunction with Kroenke Sports Enterprise, and the results will be evaluated to determine next steps in this territory. Also, Arsenal partnered with Saudi-based mobile telephone operator Mobily to run a two week soccer camp in London in July 2009. Twenty five boys were trained by Arsenal coaches in what could become a bigger partnership and a commercial opportunity.

As a consequence of Setanta Sports going into administration, we had to withdraw Arsenal TV from the Sky platform. Over the next few months we will need to re-evaluate the most appropriate distribution platform and business model for Arsenal TV going forward. Whilst this evaluation takes place we have decided to continue to produce and develop a full schedule of quality programming for Arsenal TV which will be available to Arsenal supporters on-line via [tv.arsenal.com](http://tv.arsenal.com).

The international rights for Arsenal TV for the period 2010-2013 have recently been awarded to sports rights specialist MP & Silva. Despite the global economic situation, there will be a significant increase in fees which demonstrates both the growing appeal of football and Arsenal on the world stage.

### **Arsenalisation**

We have commenced a programme of works to 'Arsenalise' Emirates Stadium. The objective is to bring the Club's rich heritage to life in and around the stadium and to make Emirates Stadium feel more like home to all our supporters. The initial programme comprises four key aspects, all of which have been developed in partnership with supporters' groups:

- The 'Victory through Harmony' team huddle features 32 of our greatest players creating a dramatic and imposing 'wrap' around the eight cores of the stadium;
- Branding throughout the lower concourse and featuring a timeline of the Club's greatest moments;
- The Highbury Shrine featuring a team shot of every player who played at our old home; and
- Armoury Square which provides fans the opportunity to personalise their own part of Emirates Stadium.

All these elements reinforce our commitment to provide our supporters with the very best environment to watch the team play. The Club will continue to actively seek feedback from its supporters and other visitors to Emirates Stadium and, in conjunction with our partners Delaware North and Cleanevent UK, strive to ensure a continually improving overall customer experience of the Club. There are a number of further "Arsenalisation" projects which, due to the constraints of planning and delivery lead times, we will look to progress in 2010.

### **Charity of the Season**

Teenage Cancer Trust became Arsenal's nominated Charity of the Season for the 2008/09 campaign, taking over from TreeHouse. The partnership with Teenage Cancer Trust, a charity devoted to improving the lives of teenagers and young adults with cancer, has been another huge success. Led by our 'Be a Gooner. Be a Giver' campaign, a record-breaking fundraising total for the Club of more than £532,000 was collected for the charity.

### **Prospects**

From a financial perspective the 2009/10 year has already started strongly, boosted by the sales completions at Highbury Square and the player sales which I have referred to above. Property activities, at both Highbury Square and Queensland Road, will continue to be a significant feature over the next twelve months.

On the field the new season has got off to a mixed start. The successful progress through to the Group Stage of the UEFA Champions League is important from both a football and monetary perspective. Promising performances in the Premier League have not always translated into results but have given us cause for optimism. We now look forward to supporting the team, as it challenges for silverware, throughout the course of the season.

Clearly, the Club already has a first class stadium, an excellent world-wide reputation and outstanding core support. Football is a hugely competitive and fast moving business and we must ensure that Arsenal is not just keeping pace but setting the pace, both on and off the field. With that in mind, over the next months we will be formulating, and then beginning

the process of implementing, a vision and comprehensive plan for the next phase of the Club's development as a world class sports organisation. The Club is superbly positioned for the future and I am tremendously excited about the opportunities we have ahead of us.

I E Gazidis  
Chief Executive Officer

## Arsenal Holdings plc Financial Review

The Group achieved an after tax profit for the year of £35.2 million (2008 - £25.7 million). This is the highest annual retained profit in the Group's history and, against a difficult economic background, it represents an excellent result.

Group turnover rose to £313.3 million (2008 - £223.0 million) and operating profit before player trading and depreciation, which is a key measure of our financial performance, exceeded £70 million (2008 - £59.6 million).

	<b>2009</b> £m	<b>2008</b> £m
<b>Group turnover</b>	313.3	223.0
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<b>Operating profit before depreciation and player trading</b>	70.5	59.6
Player trading	2.9	5.2
Depreciation	(11.7)	(11.6)
Joint venture	0.4	0.5
Net finance charges	(16.6)	(17.0)
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<b>Profit before tax</b>	45.5	36.7
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The growth in turnover and profit in our football business was largely attributable to the team's performance in the Cup competitions which resulted in additional revenues from broadcasting and an additional four home fixtures played. Sales of 208 apartments at Highbury Square were completed in the year and contributed £88 million of revenue and a little over £8 million of profit toward the pre-tax results of the Group's property segment.

The results of the football and property development segments are considered in more detail later in this review.

In terms of the Group's balance sheet I would like to draw attention to three particular aspects. Firstly, the carrying value of intangible assets (player registrations) has increased to £68.4 million (2008 - £55.7 million) following expenditure in the year on new players and contract extensions of £41.3 million. Secondly, the carrying value of property development stocks has fallen to £167.0 million (2008 - £188.0 million) as the costs relating to Highbury Square apartments are transferred to the profit and loss account on completion of sale. Finally, mainly as a result of loan repayments on our Highbury Square facility, the Group's overall net debt has decreased from £318.1 million to £297.7 million.

## Segmental Operating Results

	2009 £m	2008 £m
<b>Football</b>		
Turnover	225.1	207.7
Operating profit*	62.7	59.6
Profit before tax	39.9	39.7
<b>Property development</b>		
Turnover	88.3	15.3
Operating profit*	7.8	-
Profit / (loss) before tax	5.6	(3.0)
<b>Group</b>		
Turnover	313.3	223.0
Operating profit*	70.5	59.6
Profit before tax	45.5	36.7
* = operating profit before depreciation and player trading costs		

### Football Segment

The football business increased its turnover to £225.1 million (2008 - £207.7 million).

The main contribution to this increase was the gate income from four additional home fixtures – the UEFA Champions League semi-final and three FA Cup ties – and UEFA Champions League broadcasting revenue.

Gate income represented 44% of our total football revenues and was derived from 32 first team home fixtures. The average attendance of 59,453 (2008 – 59,720) was impacted by the fact that three of the home FA Cup ties featured Championship opponents. Notably, overall gate and match day revenue exceeded £100 million for the first time; the total for the year was £100.1 million (2008 - £94.6 million).

In addition to competitive first team fixtures we staged a second successful Emirates Cup weekend and one international friendly – Brazil versus Italy. However, there was no concert income in the year; revenue from Capital Radio's Summertime Ball in June will be included in next year's results.

Broadcasting revenues increased to £73.2 million (2008 - £68.4 million). The Club received a slightly lower level of Premier League live coverage this season but this was outweighed by the additional Champions League distributions associated with progressing to the semi final, one round further than the previous year. Champions League revenues are distributed by UEFA in € and, accordingly, the weakness in sterling worked in our favour.

The retail and commercial revenue lines were perhaps the areas where the Club had its greatest sensitivity to the recessionary climate. However, performance in both areas has proved to be robust with revenues actually showing modest increases – retail turnover for the year was £13.8 million (2008 - £13.1 million) and commercial income amounted to £34.2 million (2008 - £31.3 million).

Wage costs rose to £104.0 million (2008 - £101.3 million) representing 46.2% of football segment revenues (2008 – 48.8%) and this continues to fall within our target range. There continues to be significant upward pressure on players’ wage expectations and the activities of other clubs in the market and the introduction of the 50% income tax rate from April 2010 mean this looks set to continue. The Board remains firmly committed to backing Arsène Wenger’s judgement in determining the composition of the playing squad and the level of contract terms required to secure the long-term commitment of both new and existing players.

A proper assessment of the Club’s level of player investment needs to be based on overall expenditure on players rather than on a separate consideration of the levels of wage and transfer expenditure. We do not separately disclose the amount of the total wage bill which is represented by players but the table below provides an indication of the levels of investment.

	<b>2009</b> <b>£m</b>	<b>2008</b> <b>£m</b>
Total wages	104.0	101.3
Additions to intangible assets (player registrations)	41.3	27.5
Profit on sale of player registrations	(23.2)	(26.5)
<b>Net expenditure</b>	<b>122.1</b>	<b>102.3</b>

Other operating costs rose to £55.4 million (2008 - £46.6 million) and there are a number of reasons for this, including:

- Retail costs – reflecting tightening margins
- Utility costs
- Direct costs of event staging including fees paid to Emirates Cup participating clubs and increased number of home fixtures
- Exchange losses on € denominated transfer payable provisions

Taking into account all of these changes in revenue and operating costs the operating profit (before player trading and depreciation) from football increased to £62.7 million (2008 – £59.6 million).

## Property Segment

The Chief Executive has already provided (see above) a detailed update on the contribution made by Highbury Square to the results for the 2008/09 financial year and on the further significant progress which has been made over the subsequent months.

In terms of the results for the year, revenue of £88 million from Highbury Square sales completions provided a contribution to segmental operating profit of £10.2 million. However, we set against this profit a further impairment write-down against the carrying value of the Queensland Road site such that the overall segmental operating profit was £7.8 million.

Although we now have planning permission at Queensland Road it is appropriate to continue to carry the site on the basis of the most recent professional valuation until such time as the sale arrangements for the site become more certain. The additional expenses incurred in the year, mainly in connection with the complex planning application process, took our costs for the site above this £24 million valuation and therefore resulted in an impairment charge.

The original repayment date for the £137 million Highbury Square bank loan was the end of April 2010. Over the last ten months we have been in negotiation with our syndicate banks for an appropriate extension to the term of the loan to reflect the delays occurring in sales completions and probable requirements for rescission of a number of the original sales contracts. We have worked closely with the banks during this period and I would like to thank them for the constructive and supportive approach that they have taken throughout. There were a number of moving parts to our negotiations – in particular, the status of certain bulk purchases, the completion of construction works and the East Stand (which had originally been marketed and largely pre-sold to the Club's own contact list) – and it served the interests of both lenders and borrower to allow as many as possible of these aspects to be resolved before agreeing the terms of the loan amendment.

I am pleased to confirm that we have now agreed terms to refinance the loan with Barclays Bank plc. The term of the new loan is December 2010 and the margin will be 2.5%, previously the margin was on two loan tranches with one at 1.3% and one at 1.7%. The balance on the Highbury Square loan was £123.6 million as at 31 May 2009 and it has subsequently been reduced to £47.1 million – all repayments have been made from the sales proceeds at Highbury Square.

## Player Trading

The sale of player registrations generated a profit of £23.2 million (2008 - £26.5 million) which, together with fees of £3.6 million from the loan of players, meant that overall result from player trading was a surplus of £2.9 million (2008 - £5.2 million).

The main contributions to the disposal profit came from the sales of Alexander Hleb and Justin Hoyte and the sell-on shares receivable in connection with moves by former players David Bentley and Lassana Diarra.

The Board's policy continues to be that all proceeds from player sale transactions are made available to Arsène Wenger for re-investment back into the development of the team.

### Finance Charges

The net interest charge for the year was £16.6 million (2008 - £17.0 million). Some £14.8 million of this charge relates to the long-term stadium financing bonds and this interest, which is at a fixed rate, together with the annual capital repayment of £5.3 million gives a total debt service cost for the bonds of £20.1 million. This is effectively the annual "mortgage" payment required on the stadium financing and it was covered at a very comfortable margin of more than three times by the operating profits before depreciation and player trading in the football business segment.

Interest costs of £5.5 million which were directly attributable to the Group's property development projects at Highbury Square and Queensland Road have been capitalised into property stocks.

Interest receivable on the Group's cash reserves amounted to £2.7 million (2008 - £4.0 million) and this was adversely affected by the reduction in base rates during the year.

### Cash Flow and Treasury

There is a strong element of seasonality to the Club's cash flows with the renewal of season tickets in May reflected in the year-end cash and bank balance. Debt service reserve deposits of £32.3 million are also included in the total cash position although, being part of the security for the Group's listed bonds, the use of these deposits is restricted. That said, the cash and bank balances in hand of £99.6 million (2008 - £93.3 million) clearly represents a very satisfactory position.

The Group's activities were strongly cash positive for the year and the cash generated from operations was used as follows:

	<b>£m</b>
<b>Cash from operations</b>	62.3
	-----
Net expenditure on player transfers	(12.3)
Payment of taxation	(7.6)
Investment in fixed assets	(3.0)
	-----
Net interest payments	(17.7)
Debt repayment – property	(10.0)
Debt repayment – football	(5.3)
	-----
	(33.0)
	-----
<b>Increase in year-end cash</b>	<b>6.4</b>
	-----

The level of the Group's net debt at the 2007/08 year end was always expected to represent a peak and over the course of the year this net debt has been reduced from £318.1 million, to £297.7 million. The main change in net debt was a pay down of the Highbury Square loan balance from £134.2 million to £123.6 million. Net debt will further reduce over the course of 2009/10 as payments are made against the Group's property loans - as referred to above the Highbury Square loan has, subsequent to the year end, been substantially further reduced to £47 million.

The main components of net debt are shown in the table below (the details for term and margin on the property loans reflect the revised terms of the Highbury Square loan agreed since the financial year end).

	<b>Emirates Stadium Financing</b> £m	<b>Property Development Financing</b> £m	<b>Debenture Loans</b> £m	<b>Cash Reserves</b> £m
Start of year	(250.2)	(139.3)	(26.1)	93.3
Movement in year	5.3	9.7	(0.3)	6.3
End of year	(244.9)	(129.6)	(26.4)	99.6
Term	20-22 yrs	1-2 years	19-133 yrs	N/A
Fixed rate	5.3%	N/A	0 - 2.75%	N/A
Variable rate	N/A	Libor + margin	-	N/A
Margin	-	2 - 2.5%	-	-
Guarantee fee	0.5% - 0.65%	-	-	N/A

The largest part of the Group's debt is £244.9 million of long-term bonds with fixed rates of interest which have been in place since the refinancing exercise completed in the summer of 2006. A repayment of £5.3 million was made during the year in accordance with the terms of the bonds.

The Group's property development financing consists of the Highbury Square loan facility which has been referred to above, and a small loan being used for the Queensland Road development of which £6.0 million had been drawn by the end of the year (2008 - £5.2 million). The interest swaps which were in place to fix the rate of the Highbury Square loan expired during the year and subsequently interest charges are being paid at a variable rate, so benefitting from the current low level of base rate.

The Group has recently agreed to an extension of the term of its Highbury Square development loan. The Group's other bank facilities are not currently due for renewal,

however, the Group has held a discussion with its bankers about these other 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.

The bank facilities which the Group has used to fund the Highbury Square development are ring-fenced from and non-recourse to the financing of the football segment of the business. The use of property profits which may be transferred to the football segment is not determined until such time as those profits are realised and transferred in cash to the Club – accordingly, there is no current commitment to use any such profits and cash anywhere within the Group at any specific time for any specific purpose.

### **Profit after tax**

The tax charge for the period was £10.3 million (2008 - £10.9 million). The effective rate of tax at 22.3 % includes the benefit of adjustments required to the calculation of taxable profits on the Highbury Square project. These adjustments reflect the transfer of the stadium from fixed assets to trading stock in 2006 at its then market value and the roll-over of the capital gain which arose on that transaction.

The retained profit for the year was £35.2 million (2008 – £25.7 million).

### **Outlook**

The renewals of general admission and Club Tier season tickets have once again been at the maximum level. The Emirates Cup has again proved to be a great commercial success and although attendances, at this third staging of the tournament, were a little lower than previous years this was balanced by lower fees payable to the participating clubs.

The sales of Emmanuel Adebayor and Kolo Toure to Manchester City will make a significant contribution to the profits to be reported on the sale of player registrations.

Legal completions of 237 apartments at Highbury Square with a sales value of some £84 million have already been booked for 2009/10. With construction work complete and fully paid for, the proceeds of further sales completions will directly reduce the remaining outstanding balance on the Highbury Square loan.

Clearly, given the above, the Group has made a strong start to the new financial year. However, conditions remain very tough and uncertain for our property business and this will likely continue to impact both of our main property development projects over the next year. Whilst the impact of the recession on our football business has so far been limited the full commercial and financial impact may be still ahead of us. There are undoubtedly challenges ahead but the Group starts the 2009/10 year very well placed to deal with them,

in a very robust financial position with a high level of cash reserves and comfortable levels of debt.

S W Wisely  
Group Chief Accountant

Arsenal Holdings plc  
Consolidated profit and loss account  
For the year ended 31 May 2009

		2009			2008		
	Note	Operations excluding player trading £'000	Player trading £'000	Total £'000	Operations excluding player trading £'000	Player trading £'000	Total £'000
<b>Turnover of the group including its share of joint ventures</b>		312,305	3,589	315,894	224,541	472	225,013
Share of turnover of joint venture		(2,555)	-	(2,555)	(2,043)	-	(2,043)
<b>Group turnover</b>	3	309,750	3,589	313,339	222,498	472	222,970
Operating expenses		(250,950)	(23,876)	(274,826)	(174,480)	(21,757)	(196,237)
<b>Operating profit/(loss)</b>		58,800	(20,287)	38,513	48,018	(21,285)	26,733
Share of joint venture operating result		455	-	455	469	-	469
Profit on disposal of player registrations		-	23,177	23,177	-	26,458	26,458
<b>Profit on ordinary activities before finance charges</b>		59,255	2,890	62,145	48,487	5,173	53,660
Net finance charges				(16,633)			(16,992)
<b>Profit on ordinary activities before taxation</b>				45,512			36,668
Taxation				(10,282)			(10,942)
<b>Profit after taxation retained for the financial year</b>				35,230			25,726
<b>Earnings per share</b>							
Basic and diluted	4			£566.24			£413.49

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.

Arsenal Holdings plc  
Consolidated balance sheet  
At 31 May 2009

	2009 £'000	2008 £'000
<b>Fixed assets</b>		
Tangible fixed assets	440,369	449,517
Intangible fixed assets	68,446	55,665
Investments	730	406
	-----	-----
	509,545	505,588
<b>Current assets</b>		
Stock - development properties	167,007	187,964
Stock - retail merchandise	1,751	1,218
Debtors - due within one year	45,981	32,340
- due after one year	9,508	13,939
Cash at bank and in hand	99,617	93,264
	-----	-----
	323,864	328,725
<b>Creditors: amounts falling due within one year</b>	(314,096)	(334,252)
	-----	-----
<b>Net current (liabilities)/assets</b>	9,768	(5,527)
	-----	-----
<b>Total assets less current liabilities</b>	519,313	500,061
<b>Creditors: amounts falling due after more than one year</b>	(292,748)	(310,203)
<b>Provisions for liabilities and charges</b>	(32,235)	(30,758)
	-----	-----
<b>Net assets</b>	194,330	159,100
	-----	-----
<b>Capital and reserves</b>		
Called up share capital	62	62
Share premium	29,997	29,997
Merger reserve	26,699	26,699
Profit and loss account	137,572	102,342
	-----	-----
<b>Shareholders' funds</b>	194,330	159,100
	-----	-----

Arsenal Holdings plc  
Consolidated cash flow statement  
For the year ended 31 May 2009

	2009 £'000	2008 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	62,305	(21,013)
Player registrations	(12,335)	4,010
Returns on investment and servicing of finance	(17,689)	(19,655)
Taxation	(7,622)	(4,177)
Capital expenditure	(2,950)	(6,944)
	-----	-----
Net cash inflow/(outflow) before financing	21,709	(47,779)
Financing	(15,356)	67,186
	-----	-----
<b>Increase in cash in the year</b>	<b>6,353</b>	<b>19,407</b>
	-----	-----

	2009 £'000	2008 £'000
<b>Reconciliation of operating profit to net cash inflow/(outflow) from operating activities</b>		
<b>Operating profit</b>	38,513	26,733
Amortisation of player registrations	23,876	21,757
Profit on disposal of tangible fixed assets	(42)	(19)
Depreciation	11,682	11,555
Decrease/(increase) in stock	25,940	(82,958)
Increase in debtors	(4,680)	(1,172)
Increase in creditors	(32,984)	3,091
	-----	-----
<b>Net cash inflow/(outflow) from operating activities</b>	<b>62,305</b>	<b>(21,013)</b>
	-----	-----

<b>Analysis of changes in net debt</b>	At 1 June 2008 £000	Non cash changes £000	Cash flows £000	At 31 May 2009 £000
Cash at bank and in hand	31,601	-	22,498	54,099
Short-term deposits	61,663	-	(16,145)	45,518
	-----	-----	-----	-----
	93,264	-	6,353	99,617
Debt due within one year (bank and other loans/bonds)	(142,835)	-	8,733	(134,102)
Debt due after more than one year (bank loans/bonds)	(242,726)	(996)	6,621	(237,101)
Debt due after more than one year (debentures)	(25,776)	(320)	2	(26,094)
	-----	-----	-----	-----
<b>Net debt</b>	<b>(318,073)</b>	<b>(1,316)</b>	<b>21,709</b>	<b>(297,680)</b>
	-----	-----	-----	-----

Non cash changes represent £1,276,000 in respect of the amortisation of costs of raising finance, £320,000 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.

Arsenal Holdings plc  
Notes to preliminary results  
For the year ended 31 May 2009

1. The financial information set out above does not constitute the company's statutory accounts for the years ended 31 May 2008 or 2009, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

2. Segmental analysis

Class of business:-	Football	
	2009 £'000	2008 £'000
Turnover	225,052	207,723
Segment operating profit	30,751	26,719
Share of operating profit of joint venture	455	469
Profit on disposal of player registrations	23,177	26,458
Net finance charges	(14,449)	(13,947)
Profit/(loss) on ordinary activities before taxation	39,934	39,699
Segment net assets/ (liabilities)	188,101	162,138

Class of business:-	Property development	
	2009 £'000	2008 £'000
Turnover	88,287	15,247
Segment operating profit	7,762	14
Net finance charges	(2,184)	(3,045)
Profit/(loss) on ordinary activities before taxation	5,578	(3,031)
Segment net assets/ (liabilities)	6,229	(3,038)

Class of business:-	Group	
	2009 £'000	2008 £'000
Turnover	313,339	222,970
Segment operating profit	38,513	26,733
Share of operating profit of joint venture	455	469
Profit on disposal of player registrations	23,177	26,458
Net finance charges	(16,633)	(16,992)
Profit/(loss) on ordinary activities before taxation	45,512	36,668
Segment net assets/ (liabilities)	194,330	159,100

### 3. Turnover

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Turnover, all of which originates in the UK, comprises the following:		
Gate and other match day revenues	100,086	94,580
Broadcasting	73,239	68,360
Retail	13,858	13,052
Commercial	34,280	31,259
Property development	88,287	15,247
Player trading	3,589	472
	-----	-----
	313,339	222,970
	-----	-----

### 4. Earnings per share

Earnings per share (basic and diluted) are based on the weighted average number of ordinary shares of the Company in issue - 62,217 shares (2008 - 62,217 shares).

### 5. Reconciliation of movement in shareholders' funds

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the year	35,230	25,726
Opening shareholders' funds	159,100	133,374
	-----	-----
<b>Closing shareholders' funds</b>	<b>194,330</b>	<b>159,100</b>
	-----	-----

### 6. Annual General Meeting

The annual general meeting will be held at Emirates Stadium, London, N7, on Thursday 22 October 2009 at 11.30 am. The full statement of accounts and annual report will be posted to shareholders on 29 September 2009.

***The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.***